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Cover Photo: Xmas Shopping at R. H. Macy's in New York City

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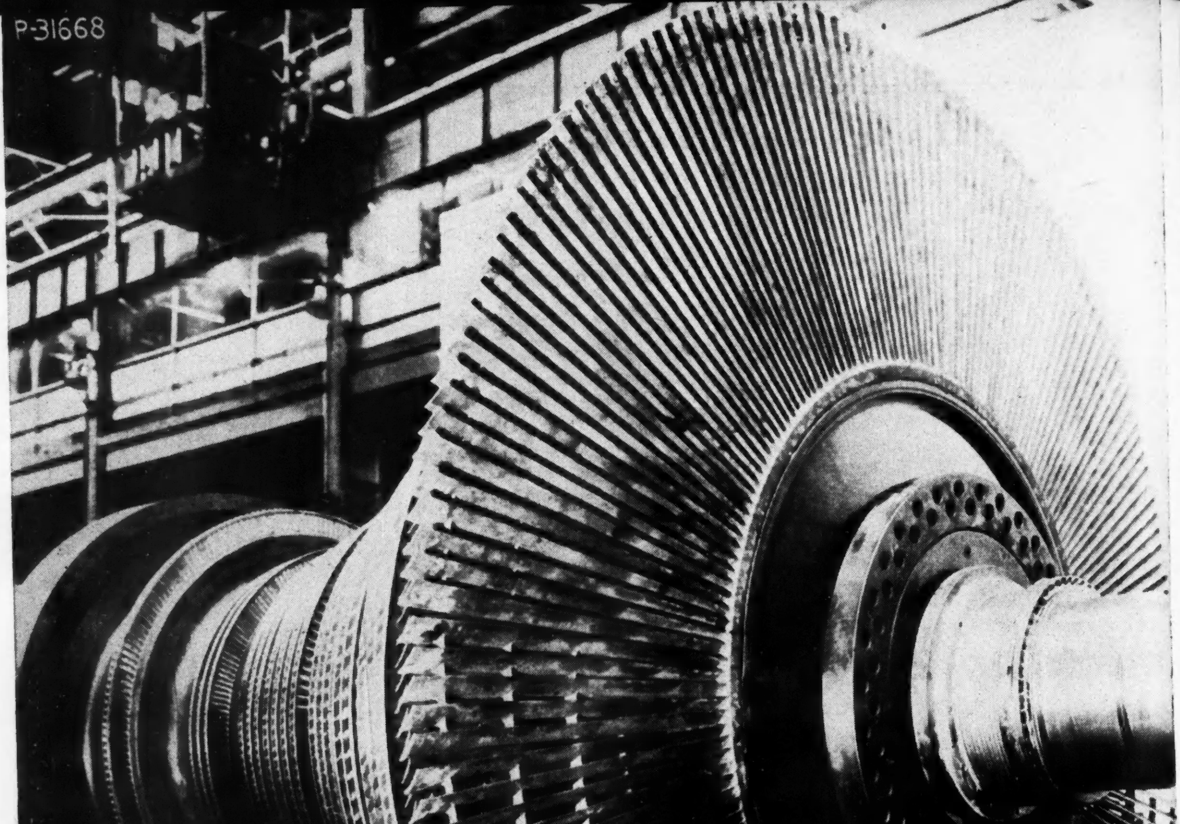
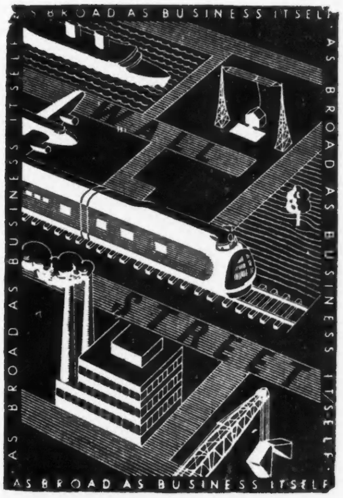


Westinghouse Phot

Some degree of decline in business activity is certain during the readjustment period following the defeat of Germany. But on the question of how much and for how long a time, responsible opinions vary widely. The correct answer is important to all investors. Therefore, we are giving you the pro and con on this problem by two different authors. **See page 235.**

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher* LAURENCE STERN, *Managing Editor*



The Trend of Events

IN THE HOME STRETCH . . . Some months ago Mr. Churchill, with his unique genius for the right phrase at the right time, expressed a sober and guarded optimism on the United Nations' war prospect by saying that "the end of the beginning" had been reached. Since then events have moved rapidly and most favorably on the military, diplomatic, production and transportation fronts. Whether victory over Nazi Germany is weeks away or months away is not of basic significance. The monumental fact is that the "end of the beginning" has been put far behind, and the beginning of the end is patently and irrevocably under way. We are in the home stretch of this terrible war. It is most improbable that Christmas of 1944 will find the Hitler regime intact. For that justified hope, the nearby Christmas of 1943 will be all the more real an occasion for rejoicing throughout the major part of the world.

Victory is in the air. You can sense it even though you can not put your finger on the date. You can sense it in the supreme confidence that our war leaders are unable to conceal—even as, quite rightly, they continue to warn that there must be no let-down in our effort and determination. You can sense it in the notable shift of emphasis in the type of news emanating from Washington—news of war production cut-backs, of redistribution of surplus supplies, of eased restrictions here and there, of more and more attention to post-war problems and planning.

This is not all to the good. In regrettable degree it makes for a marked tendency toward "politics as usual" in Congress; and the only apparent effect on the high-riding special pressure groups is to make them all the more determined to grab while the grabbing is good. Nevertheless, we are over the hump and racing down the home stretch to victory—and nothing else can be remotely as important as that fact in these closing weeks of 1943, the year that will go down in history as the most crucial of our time in that it brought the turning point in the Second World War.

TAX INCENTIVES . . . Some cynics are expressing doubt that corporations will ever realize on the refund and loss carry-back provisions of the excess profits tax. Their reasoning is that the possible "windfalls" would be so large in the aggregate in any period of production slump after the war that Congress may well repeal the "cushions" before they can become importantly effective.

We rather doubt this. In any event, it is important to emphasize that it would be grotesquely erroneous to regard such refund provisions in the tax law as constituting "windfalls" in any sense of the term. Their sole and quite valid purpose is to safeguard war-active enterprises against the threat of insolvency. In effect, they merely provide for levying taxes on the basis of earnings over a period of years rather than on the exceptionally high earnings of an individual year. Of course, if there are no heavy losses experienced by corporations in the first two years of peace there will be no large amount of carry-back refunds—and it may well be that this will be the fact. But if there *should* be losses, obviously carry-back tax refunds would in many instances be the only protection against insolvency.

The provisions of the present law are reasonable and equitable—not liberal. To cite an example for illustration: suppose that a given company earned a profit of $2 million in 1942, $1 million in 1943, but had a loss of $2 million in 1944 and a loss of $1 million in 1945. In this case, earnings for the four-year period as a whole

would have been exactly nothing, yet the company would have paid taxes of $1,200,000 on the temporary earnings of 1942-1943.

Whether or not it is probable, it would be *possible* for a company subject to maximum excess profit taxation to lose much more money in 1944 and 1945 than it earned in 1942 and 1943, and to have drained itself so largely of cash in paying huge 1942 and 1943 taxes as to have no alternative to bankruptcy unless it can recover 1942 and 1943 tax payments. The loss carry-back provision is nothing more nor less than a protection against the *contingency* of tax-forced insolvencies. It is to be hoped that contingency will not arise in any significant number of instances, but the carry-back provision is the only guarantee against it; and we have our doubts that Congress will "welch" on this matter of simple equity.

THE LABOR SUPPLY . . . Only a few months ago the question of compulsory selective service for civilians was still as active and controversial topic of debate in the press and on the radio forums. While the opposition of the labor unions was selfish rather than objective and while the reluctance of Congress and the Administration to adopt the plan was more political than otherwise, the fact remains and is self-evident that the labor shortage problem never reached the critical proportions that the War Manpower Commission and many others had forecast. It is no longer possible to make out even a semi-plausible case for forced allocation of labor.

Of course, the labor supply remains quite spotty. In some areas there is still shortage but the number of these is clearly decreasing, and among them on the average the shortage is less rather than more acute. In other localities the supply of labor has caught up with the need; and in still others there is now oversupply and the threat of unemployment for the first time in many months. It seems clear, whatever the further rise in aircraft output, that total war production on a monthly basis is already at its peak, if not possibly past it. Therefore the next major change in the labor picture is bound to be one of more than adequate supply, and it may not be so very far ahead at that.

Out of all the agencies in Washington, Mr. McNutt's War Manpower Commission probably has commanded less public confidence than any other. Its estimates of labor needs have proven consistently wide of the mark by a large degree. For that reason, its present contention that at least 500,000 new war workers will be needed in the near future will be taken with a grain of salt. The War Production Board believes that the days of national labor shortage are drawing to a close, and this agency has a record of keeping its feet on the ground and of knowing what it talks about.

LETTING IN THE LIGHT . . . Chairman Nelson of WPB has announced that the Government will soon begin regular issuance of detailed statistics on manufacturing production, inventories, consumption of materials, fabricating capacity and its utilization, volume of employment and various other matters that long have been hush-hush under the dictates of military prudence. This is, indeed, good news. While it does not mean, of course, that the war production job is completed, it does mean that there is no longer valid reason of national security for the public, economists and business men to be in the dark as to the position and operations of our industries, current and prospective.

This change is of real and great importance, especially because it will greatly aid business men in making their plans for the post-war period. As it is, business planners know what is going on in their own fields but are pretty much in the dark as to what is happening in other industries. The detailed knowledge which the War Production Board promises to make available will be especially helpful in the formulation of plans that will fit the varying regional, community, industry and individual company situations.

This publication has for some time had a strong notion that secrecy about our war production had been carried to an unnecessary extreme. If this production were inadequate or behind schedule a case could be made for concealing the facts from our enemies. But the contrary is true. In fact the performance is so prodigious that publication of more detailed truth about it would be the most effective kind of "propaganda."

With this issue we adopt a new type which permits substantial increase in number of words to the page. Our purpose is to cooperate fully with the Government in conserving paper, while at the same time providing our readers with more, rather than less, information.

C. G. WYCKOFF,
Publisher.

CIVILIAN SUPPLY . . . There is no possibility that production of consumers durable goods can be resumed in any big way in the near future. Nevertheless a turning point has come and in the new year, even as war output continues at very high levels, there is promise of a gradual and progressive—though initially selective—expansion of such production. To begin with, it will be mainly in repair parts, flat irons, refrigerators and a few other lesser household "gadgets". If Germany is defeated by next summer, the second half of the year would see all possible emphasis placed on expanded production for civilians. The limitations at that time will relate mainly to the speed of reconversion, rather than to materials. Most metals are already in quite adequate supply for military needs, and in some instances surpluses for civilian uses are in sight.

Indeed, the Government now has a rapidly growing surplus of materials and goods—in great variety—on its hands. In time this surplus will become of major economic importance, although for the present the problem that it represents is one of efficient redistribution within the Government's own procurement agencies rather than of liquidation in the open markets. That is to say, there is no over-all surplus yet, except in relatively minor degree.

The Army and Navy have been criticized for over-buying. In fairness, however, it should be realized that military needs could not be precisely calculated in advance, and that the procurement agencies would have been gambling with the national security if they had failed to make their plans on the basis of the worst contingencies. As it is, the future will hold more than ample recompense for such minor inconveniences as the public has experienced due to military over-buying. The most effective of all safeguards against the threat of price inflation during the period of continuing shortages after the war will be the availability of enormous Government surpluses that can be fed into the markets when and if that would serve the national interest.

As I See It! BY CHARLES BENEDICT

LESS FEAR — AND MORE IMAGINATION

Fear is a limiting emotion frequently based on a wrong premise. It enmeshes our minds so that we do not know the truth when we see it, like the contemporaries of Columbus who, though looking at a round world, continued to call it flat.

Constructive thought, on the other hand, opens new horizons and spurs us to the practical action that makes our dreams come true. If we banish fear and throw off the chains that bind us to static habits of thought, which for many make evolution perilous and bewildering, we will be able to move very fast in the period ahead.

In the salubrious climate of Teheran, under the enchantment of old Persia with its sunlit gardens of wondrous beauty and subtlety of color and perfume, matters of the greatest political and economic import to us have been decided. Only good can come of it, for the plans concern themselves with rehabilitation and reconstruction. Faith and patience are the necessary ingredients for their realization. It will bring the end of license and the beginning of freedom.

To those of us who believe in the greater accomplishments under free enterprise, restrictions are hampering. Yet we know that human nature makes them necessary. Therefore, while free enterprise is bound in the future to stand side by side with increased Government control—still the balance will lean decidedly in our direction because the United States, Britain and China are dedicated to the same cause of freedom and personal initiative.

And Russian liberalization and collaboration must be forthcoming if that country is to benefit from the world machinery of distribution and financing controlled by the United States and Britain. It is clear that ahead lies a great age of human growth and development so large in scope that it calls for co-operation and peace among all men. From the reports of the Teheran meeting, I believe we have every reason to feel certain of Russian participation in the new world in the making.

Yet already there are those who are looking backward because they haven't sufficient faith to look forward—nor the imagination to visualize the possibilities.

They see only the faults of the United States; think only of the bulldog tenacity of British domination; are fearful of Russian intentions; and cynical of China's capacity to overcome the inertia of centuries.

They ignore the basic principles of evolution that is ever in a state of flux—that race and temperament are as different as climates—and that there are many roads leading to the same goal of happiness and prosperity—depending on the differences in ideals and standards.

Surrounded by the depressing vapors of fear, these so-called leaders are not sufficiently observant to sense the trends away from the extremes of thought to the middle ground to which the world is moving, and that the new leadership is dedicated to that proposition.

Nor do they sense the forces that are making the United States the world leader of this great movement, for of all the countries the United States alone has the confidence of all peoples, not based on guesswork or progaganda, but on the demonstration of our principles and accomplishments in this war.

Those so-called statesmen who sit comfortably at home and play politics while a new age is being born do not occupy a place of respect in the minds of the men who are fighting our battles abroad. Out of their bitter experiences they have learned to know that in this new kind of warfare, the world is one, that there are no frontiers in the sky and that the salvation of the future world lies in collaboration—in being good neighbors and in recognizing that men are the same regardless of race and color.

There will be no mistakes this time; the millions on the fighting front will see to it when they come home. Judging from the reports coming back to us, the so-called statesmen who block every move—the brazen lobbyists demanding higher prices and profits—the greedy labor leaders—won't be forgotten un- *(Please turn to page 268)*

Ewing Galloway

British legation at Teheran, Persian city with a salubrious winter climate, now famous as the spot where Roosevelt went five-sixths of the way—geographically speaking—for a meeting of minds with Stalin.

The Market Turns To Realities

It now looks improbable that the market's broad "transition to peace" phase can be completed this year. We continue to advise postponement of investment purchases for appreciation and would regard a year-end rally as a transient trading-range affair.

BY A. T. MILLER

During the fortnight since our last previous analysis was written the market first registered new lows on the intermediate reaction in the industrial and rail averages, culminating in seven consecutive sessions of decline to and through Nov. 30; and thereafter to this writing has had a moderate rally.

In the long, irregular readjustment that has been under way since last July, the maximum "come-down" so far has been 16.25 points in the industrial average. From the low point of 129.57 the gain on the current low-volume rally to this writing has been 2.30 points. As compared with two weeks ago, the industrials are now down by 1.07 points; the rails up by 46 cents; the utilities up by 69 cents.

Two things about the performance of the market seem especially interesting. One is the far above average demand for utilities. The utility average made its reaction low to date on Nov. 8, nearly a month ago, at 20.15, which was a net decline of only 2.15 points from the summer high of 22.30; and at this writing the level is only 90 cents below the recovery high.

The second point worth attention is that, despite a preponderance of bearish sentiment, the retreat of the industrial average appears to have become a markedly reluctant and grudging affair. In scarcely more than a fortnight between July 14 and August 2, the decline amounted to 11.82 points—but in more than four months since the August 2 low of 134 was made, the maximum additional decline was only 4.43 points and as we write this the *net* additional decline has been 2.13 points.

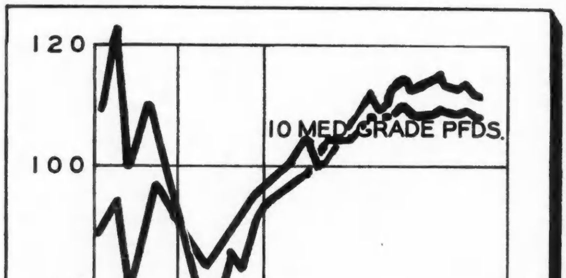
Certainly this represents very stubborn resistance, not at all comforting to those who figured that the combination of tax-selling and seasonal market precedent called for a substantial extension of the downward phase during the first half of December. Since the clear-cut breaking of the 134 August resistance level, the most bullish analysts looked forward to the 128 level as the highest at which they contemplated favoring purchases; while majority opinion put the expected low at least at 125 for December, with a skid down to 120-118 kept in mind as a distinct possibility.

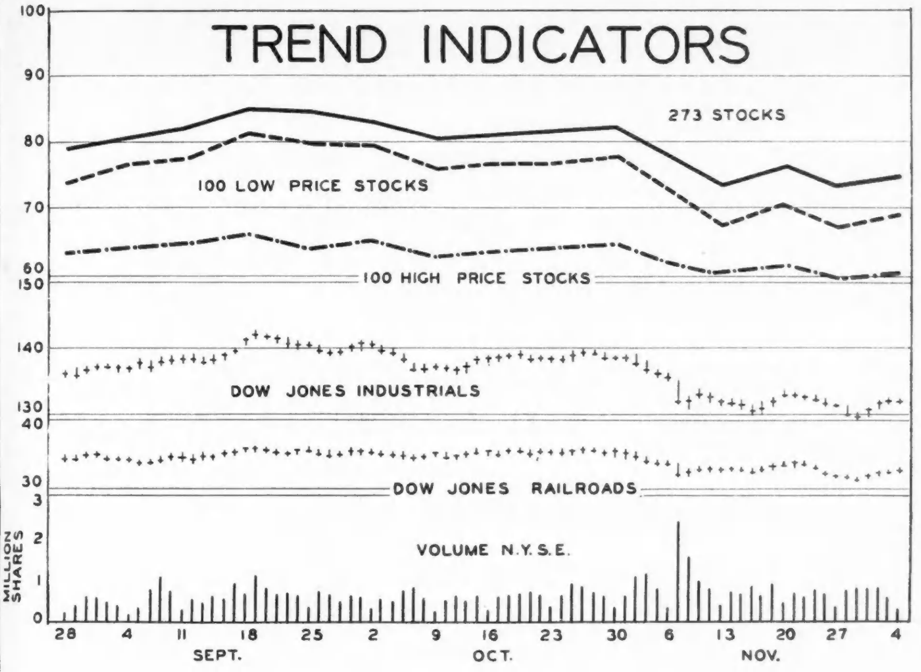
It may be that too many people want substantially lower prices, on which to buy. The market has a nasty little trick of seldom doing what the majority of people want it to do, or expect it will do. To make matters worse, it is even more contrary about doing things *when* people expect that it will.

The market's "public" today falls into two broad classes. One is made up of long-pull bulls. They are inclined to accumulate stocks but not to reach for them; to place buying orders at prices under the market. This tends to slow and check reaction. The other class, some "hung up," some with profits, take a shorter range view. They are inclined to sell on rallies, to place selling orders moderately above the market. This doesn't do the rallies any good. Among larger operators and professionals, majority sentiment appears somewhat more bearish than "public" sentiment.

Barring an overnight ending of the war, it is our notion that the market is unlikely to do anything exciting over the near-term. We don't think it is likely—for the rest of the year—to decline much, if any, below the recent low. On the other hand, from the present base, the scope for the traditional year-end advance seems quite limited—perhaps up to the 135-136 level.

We seek in these analyses of the market to offer the soundest guidance we can to investors and speculative investors as regards the intermediate and longer-term prospects. Having previously recommended the scaling down of holdings and the retention of a substantial cash





reserve, our next objective is to determine an opportune buying level. When it will come, we can not say. The one firm conviction we have is that it is not yet here; and we think it probable that when it does come—and it now tentatively looks to us like some time in the first quarter of the new year—it will be substantially below the 128 level, Dow-Jones. From this point of view, trading range fluctuation over the next few weeks between, say, 129-136 would be immaterial.

Although the decline from the bull market peak has been moderate—cancelling at most about 30 per cent of the previous rise in the industrial average—the period of readjustment has now lasted nearly five months. Obviously, this is not a "technical" correction. They don't last that long. This may be called an "in between" phase: a kind of investment and speculative no man's land, the beginning of which was denoted by the fall of the Mussolini regime and the consequent rupture of the previously existing fabric of bullish thought or hope. What lies beyond it is obviously regarded by buyers and sellers of securities as uncertain or dubious. The market is looking ahead to the end of the war in Europe, to the coming big decline in war orders, to the downward adjustment of industrial production; it is thinking about the problems of reconversion, post-war taxes, post-war politics; it is wondering about the real character of the European peace, concerning which the official wartime pronouncements are necessarily stronger in generalities than in detail.

Indeed, so far as the stock market is concerned, the European war is already over in a very real sense. That is, the present investment feeling of uncertainty and caution does not, in our opinion, hinge on doubt as to whether Germany will crack up this winter or next spring or later—but, rather, on the shape of things to come *after* the Nazi downfall. The so-called war stocks have been discounting this event for a much longer period than that since last July. It is highly improbable that any change in the war's duration prospect could of itself create renewed demand for these issues on any significant scale. They will have a major recovery when and if people decide that they are attractive on their *post-war* prospects.

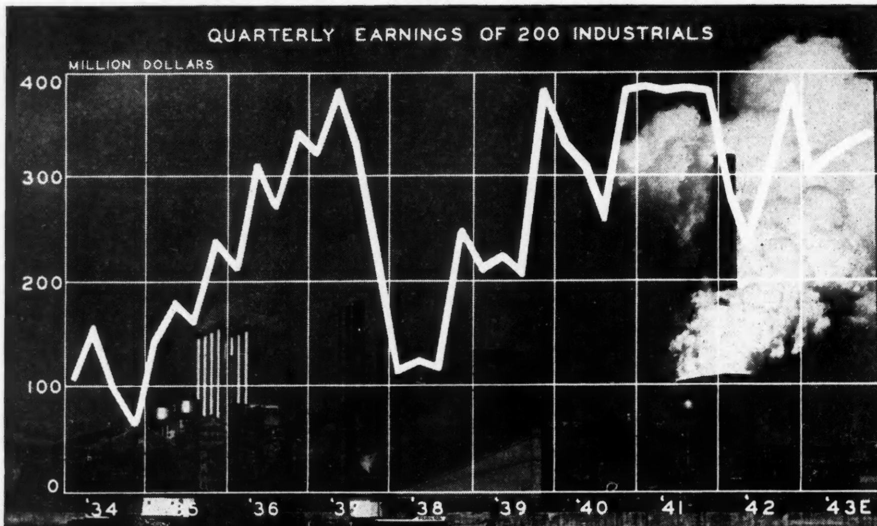
As for non-war stocks, all that need be said is that pro and con appraisals today have almost nothing to do with the duration of the war—almost entirely to do with, on the one hand, degree of vulnerability or immunity to early post-war readjustments; and, on the other hand, the longer-term — that is, post-transition phase—volume and earnings potentialities. So far as the war has any direct relationship to the esteem in which investors hold peace stocks, logically thoughts of early peace ought to be more bullish than thoughts of delayed victory.

As usual, the market strives to discount coming changes well ahead of their development. Thus, it has already entered its own post-war transitional phase, so to speak, in the sense that it is now feeling its way in the process of evaluating common stocks on an ex-war basis. True, the bull market up to July was also on an ex-war basis in that it was discounting "post-war prosperity"—or "inflation" if you prefer—but doing so in a happily general kind of way. Now that we are approaching peace, the down-to-earth realities and uncertainties rudely intrude and will not be denied attention.

It so happens that we hold the opinion that early post-war prospects for business volume and corporate earnings are not particularly frightening, but that is beside the present point. Whatever the actual shape of things to come, we question very much whether the market's transitional adjustment can be completed except in terms of both more time spent and more points of decline in the averages, regardless of intervening interludes of rally. The present market, in our opinion, lacks adequate psychological base for a broad rise above the July highs; and it also lacks the alternative base for dynamic rise that would be provided if a violently oversold technical condition existed.

Regardless of day to day or week to week changes on the fighting fronts, we anticipate that the market concensus will continue to bank on—or make allowance for—relatively early peace in Europe.

In this connection one of the most revealing things we have seen was a recent dispatch from Lisbon, Portugal, by Henry J. Taylor, serving as a correspondent for the Scripps-Howard newspapers—revealing in a way opposite to what the writer was emphasizing. Since there is regular air service between Lisbon and Germany, Mr. Taylor observed that it is easy in Lisbon to get an accurate picture of the true status of Germany from large numbers of German and neutral (*Continued on page 268*)



Shifts in Corporate Earnings Outlook

Under Partial Reconversion   Under Full Reconversion

BY E. A. KRAUSS

THE recent course of events has greatly strengthened hopes of a relatively early end of the war in Europe. One result has been to focus increasing attention on the situation which industry is likely to face when peace comes. Much has been said about backlogs of deferred demand, about the impressive resources in the hands of the consuming public, and how these factors are apt to promote one of the biggest booms, to assure industry of one of its most profitable periods ever recorded. Financial and trade forecasters, according to their varying shades of expectancy, have been laying their bets on the shape of the post-war era and on the profit outlook for industry. The great majority are quite optimistic.

It is clearly desirable, even necessary, to look ahead, and accurate glimpses into the future would hardly be feasible without marshalling all pertinent facts but it is doubtful whether the real key to the post-war outlook will be found in such data as backlogs and purchasing power, deferred maintenance and other conventional yardsticks. While they are useful to a degree, they may mean one thing or another, depending largely upon matters which at this time hardly lend themselves to analytical treatment. I refer to questions of public policy. *They* are the big questionmark in the post-war outlook; they will also govern in large measure the shape of things during the vital interim period that will mark the partial reconversion phase after cessation of hostilities in Europe. Their importance to industry and investors requires no emphasis. Paramount are taxation and business controls. If, in these spheres, specific programs of sound public policies were formulated now and given adequate support in Congress, the outlook would be far more heartening. Lacking this, great uncertainty prevails.

As to fiscal management, no one need suppose that we could continue the present tax system into peace time and have business flourish. But in too many discussions, particularly those emanating from New Deal circles, one finds the ever-present suggestion of the absolute need of large-scale post-war Government "pump priming," with all its fiscal implications. Its proponents are quick to assert that, anyway, part of the post-war era must be regarded as part of the war period, that war-time taxes, controls, etc., must be retained until our economy is back on an even keel. Putting the cart before the horse, they contend that the necessity of large post-war budgets is bound to impel their retention.

If this sort of thinking is translated into action, and we must not rule it out as an impossibility, we would have to revise most of our rosy dreams of booming post-war business. Boom it may, but profits would be disappointing. This, however, is looking far ahead. Let's first examine the more immediate picture as it is likely to shape up under partial reconversion after the end of the war in Europe.

Its termination will release an important segment of our productive facilities for peace-time production. The war program may be cut fully 50% with a decline of some $20 billion in munitions outlays alone. Many shifts will occur elsewhere and total war expenditures should drop to an annual rate of $65 billion, probably even less. There will be a marked easing in the materials supply situation permitting progressive resumption of the manufacture of a wide range of consumer goods. Whether this will fully compensate for the drop in war business remains to be seen; some anticipate an over-all decline in production of around 20% though a much smaller recession in composite industrial earnings due to the workings of the tax cushions. As far as manpower is concerned, some 5 million workers may be re-

leased from war jobs, perhaps 3 million soldiers from the Army.

It will mark a turning point which will bring us face to face with perhaps 80% of the problems of peace. When workers are released, industries must be chosen to receive them, and companies within these industries. Shifting plants from war to peace production is likely to be a delicate matter and will probably have to be done according to some strategic plan. Those best able to swing immediately into the manufacture of needed civilian goods will probably be selected first but attention must be given to competitive and other complex factors within each industry. It will mark one of the most difficult aspects of reconversion.

Up till now, the civilian goods program has been long on promise, short on action. Despite valiant efforts of the Office of Civilian Requirements, little could be done to relieve existing shortages. With a substantial easing of the supply situation when partial reconversion gets under way, the outlook will be much improved. Even now the steel supply, after months of wrestling with severe shortages, is finally in balance so that 1944 allotments for civilian goods could be doubled. Aluminum is plentiful, other non-ferrous metals no longer scarce. Thus even before industry gets the "green light" for partial reconversion, a mild revival of consumer durable goods manufacture is indicated to the extent that labor can be had. In fact, OCR is scheduling for next year production of some 2 million electric irons, 900,000 household washing machines and an equal number of domestic refrigerators. Measured against existing backlogs, it is quite a good start, considering that it is undertaken in the midst of total war.

Such planned revival of civilian goods manufacture will be multiplied many times after the end of the European phase. By then, Vice Chairman Wilson of the WPB predicts, Government will authorize production of predetermined quantities of additional consumer goods, even including automobiles. How will this affect industry?

Earningswise, prospects continue good for 1944, even when Germany is defeated. While the end of one war will mark the beginning of a decline, a continued high level of over-all activity appears assured, measured by pre-war standards, as long as either war lasts. No drastic slump is anticipated until the global war is won. Any setback in earnings should be effectively cushioned by the tax buffer. However, important cross-currents affecting numerous industries, and/or companies, must be looked for in this general picture.

There is, first, the important matter of reconversion order, the delicate problem of selecting those industries and companies which will first revert to normal production. Offhand it appears questionable whether there is any great competitive advantage in an early start on civilian goods production. First goods are likely to be outdated or stripped designs and may well meet consumer resistance. When full reconversion occurs, late starters may quickly regain any benefits lost and early reconverters will have to undergo a second change-over for the production of new models.

Even more important, and affecting all industry groups which reconvert early, is the tax factor. Under partial reconversion, entire consumer durable goods industries may well be returned to peace production, and thus get an early start in their effort to fill the vacuums created by war-time shortages. These are considerable, as evident from the accompanying table containing estimates of the various backlogs. By reducing these under partial reconversion, they will do so under war conditions and, specifically, under high war-time taxation including excess profits taxes. It would mean, in other words, a more or less severe reduction of post-war profit potentials as formerly envisaged on basis of accumulated deferred demand. To illustrate this, take, for example, refrigerators. Indicated backlog at the end of this year is 2 million units, and some 2.8 million units at the end of 1944. Since production of 900,000 units is scheduled for next year and presumably an even greater quantity will be made in 1945, before total war ends, the backlog by the time when the war is over will be reduced by roughly two-thirds. As war-time taxes will be in effect at least until the end of the war, two-thirds of the existing backlog will thus have been satisfied under EPT conditions, that is earnings on this volume will be far less than they would have been after repeal of EPT. This is apt to take a lot of the "cream" off post-war earnings potentials, profits that would have been realized if the entire backlog were worked off after repeal of EPT. The effect of EPT on corporate earnings is well known; the

ESTIMATED BACKLOGS OF CONSUMER-DURABLE GOODS INDUSTRIES

	Backlog at End of 1943 (units)	Time required to fill vacuum (months)	Backlog at End of 1944 (units)	Time required to fill vacuum (months)
Automobiles	9,000,000	36	10,500,000	39
Radios	5,000,000	24	8,500,000	36
Refrigerators	2,000,000	15	2,800,000	27
Washing Machines	1,500,000	24	2,100,000	28
Vacuum Cleaners	1,500,000	12	2,000,000	24
Oil Burners	500,000	20	600,000	24
Electric Ranges	100,000	6	220,000	12
Electric Ironers	50,000	5	150,000	12
Flat Irons	3,200,000	12	5,200,000	24
Electr. Clocks	2,600,000	12	5,000,000	18

EFFECT OF EXCESS PROFITS TAXES ON COMMON STOCK EARNINGS

of representative consumer durable goods companies.

1942 per share earnings

	before EPT	after EPT
Chicago Flexible Shaft	$7.94	6.34
Chrysler (a)	3.57	3.57
Crosley Corp.	10.70	3.54
Eureka Vacuum (b)	2.09	2.09
General Electric	(c)	1.56
General Motors	4.25	3.55
Master Electric	16.65	4.85
Maytag (b)	——	0.18 def.
McGraw Electric	3.79	2.11
Nash-Kelvinator	1.29	0.89
Philco	5.61	1.61
Radio Corp.	1.39	0.42
Servel (b)	0.61	0.61
Sylvania Electric Prod.	5.52	1.76
Sparks-Withington	1.89	0.64
Studebaker	3.02	0.92
Westinghouse	18.12	5.43
Zenith Radio	(e)	3.06

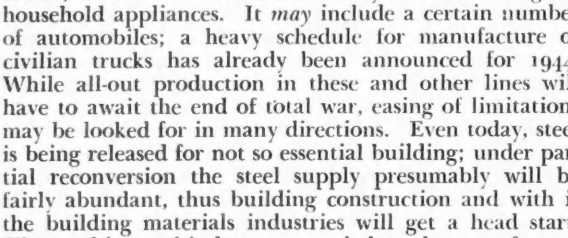
(a) No EPT provision made in 1942 income account.
(b) No EPT liability incurred in 1942.
(c) EPT charges not specified but total taxes amounted to $6.69 per share.
(e) EPT charges not specified but total taxes amounted to $6.00 per share.

accompanying table shows its adverse influence on earnings of a number of representative companies in the consumer durable goods field.

How many industries are likely to be so affected? A definite answer can hardly be given but indications point to return to peace production, under partial reconversion, of most consumer durable goods industries except automobiles. Even the latter may make a limited start, depending on the trend and character of military requirements during the Far Eastern phase of the war.

On the whole, reconversion procedure and time factors will be tied to the distribution of manpower, to proper allocations of raw materials and the functioning of transportation. These are administrative problems for which Government will have to take responsibility. Whatever snags may occur, the exigencies of war and the pressure of public opinion should force measures to bring about at least a fair schedule, not too much delayed. Heralds of a returning consumer economy are bobbing into view already in the products mentioned before. How fast further releases will occur, and on what additional products, must be surmised until we get more factual clues but the signs are there and they are multiplying.

Refrigerators, washing machines and flat irons are definitely in sight by the latter part of next year, regardless of war developments. Under partial reconversion, most other consumer durable goods will be added to the list, in order of their essentiality. It will then include radios, vacuum cleaners and virtually the whole range of household appliances. It *may* include a certain number of automobiles; a heavy schedule for manufacture of civilian trucks has already been announced for 1944. While all-out production in these and other lines will have to await the end of total war, easing of limitations may be looked for in many directions. Even today, steel is being released for not so essential building; under partial reconversion the steel supply presumably will be fairly abundant, thus building construction and with it the building materials industries will get a head start. The machine tool industry can switch to the manufacture of peace-time machinery. Reconversion of the railroad



Wiring control panel for the Navy at the General Electric plant

equipment and farm equipment industries, already begun, will be greatly speeded up if not completed by then. Even in tires, civilians may get that longed-for break. Textiles, leather goods and kitchenware will remain tight, we hear, until relief and rehabilitation needs abroad are satisfied.

All of these industries, according to the present outlook, may operate under partial reconversion at least 1½ years. During this span, they will be able to reduce backlogs materially, in some instances perhaps drastically. Volume will remain high but earnings, subject to war taxes, will show little change from those realized while producing for war. Additionally, margins will be frozen by price control. After full reconversion, they will find deferred demand reduced by anywhere from one-half to two-thirds and proportionately the outlook for sustained high post-war activity under reduced peace-time taxes.

It is a prospect that underscores the need for selectivity in common stock investment. Industries where backlogs are moderate in terms of time required to fill them, plainly will not enjoy the boom conditions once envisaged, as far as profits go. Others, too, may find their earnings potential from the post-war recovery cycle leaner than expected, and this prospect may well result in a revision of opinion as to the desirability of early reconversion.

Impact Varies

Since market prices reflect earnings prospects rather than volume of business, the situation is bound to have a bearing on future market behavior of equities in this category, though no hard and fast conclusions are possible today as to their identity beyond the surmise that most consumer durable goods makers, except automobiles, appear to become first candidates. Railroad and farm equipment makers are in the same boat but with immense backlogs assuring good business for 3 to 5 years the effect will be far less pronounced, perhaps negligible depending on the duration of the partial reconversion phase. The building industry is even better situated but the machine tool industry may find its already slender post-war earnings potential further pared in the process. Makers of mining, printing and textile machinery may also be affected in ratio of the time they will operate under partial reconversion.

Validity of this argument may be contested on the premise that deferred demand will continue to accumulate until resumption of full production but it must be borne in mind that reduced consumption of durable goods is not mathematically cumulative. This applies even more to non-durables where postponed demand is inevitably lost. On the other hand no implication is intended of any early slump in the industries affected. Volume will be high for quite some time despite the indicated erosion of profit potentials. Only special tax allowances under partial reconversion, today an unlikely prospect, could mitigate the latter. Where peace and war production continues simultaneously, the dent made in existing backlogs, and thereby the cut in future earning potentials, will naturally be less severe. The effect will be totally absent where peace production, perhaps due to materials restrictions, is insufficiently large to put a company into EPT brackets. The outlook thus raises new criterions in appraising intermediate and long-term prospects of numerous companies, even industries, once partial reconversion has become a fact. Individual tax bases among other things, assume new importance.

(Continued on page 26

The New Crisis In Wage-Price Control

How Other Countries are "Holding the Line"

BY V. L. HOROTH

WHILE the news from the fighting fronts has been increasingly encouraging in regard to the shortening of the war on the Continent, the press comments on the developments on the home front have been confusing for the average reader. Not that there has been any lack of good domestic news, especially in regard to our war effort. On the contrary, the country's industrial production is reported to have reached a level nearly two and one-half times as high as before the war. Since shipments of war materials have been getting through extremely well and large supply dumps have been built up abroad, it has been possible to cut down substantially on the output of many kinds of military goods and to cancel a large volume of prime war contracts. As a result of this widespread cutting, total war expenditures during the current fiscal year may be reduced from the previously estimated figure of $97 billions to $89 billions or even less.

The flattening of war expenditures at around the $7 billion a month level dates back to last April. It implies that a climax has been reached not only in our war output, but also in the tremendous outpouring of the purchasing power that has been the real cause behind the pressure on prices and wages. During the third quarter of 1943, Government expenditures actually declined below the preceding quarter—for the first time since 1940. This development was accompanied by a decline in national income (adjusted for seasonal fluctuations), and by a decline in the quarterly increment, representing the increase in the currency and bank deposits held by individuals.

However, the decline in the rate at which new purchasing power has been generated, has not been the only factor that has contributed to the lessening of the inflationary pressure. Apparently the Treasury is absorbing a larger portion of the purchasing power than was anticipated. It is quite possible that, between the cut in war expenditures and the increased Treasury receipts, the budget deficit will be from $11 to $12 billions smaller. The expected increase in the public debt would, of course, also be less. In fact, it looks as if the Treasury will be able to finance almost 50 per cent of its expenditures from tax collections, which would mean that we are doing practically as well as Great Britain or Canada. It would also mean that it wouldn't be necessary to raise as much from the non-banking sources during the forthcoming Fourth War Loan drive as was raised during the Third War Loan campaign completed in October.

"HOLDING BACK THE TIDE"

Seibel in The Richmond Times-Dispatch

The third development, just beginning to contribute to the lessening of the danger of uncontrolled inflation but likely to rise in importance during the next six months, is the prospect for larger supplies of civilian goods. The increased output of refrigerators, washing machines, electric irons, farm equipment and motor trucks for civilian use has already been announced. According to Food Administrator Jones, more steel will be allocated for food processing equipment next year. The building of new metal fabrication plants has been discontinued and the production of high-cost nonferrous metals is being discouraged. Also contributing to the improvement in the commodity supply situation have been larger imports of such commodities as burlap, chrome and manganese ore.

The improved commodity situation is being reflected in prices, which, in the case of scrap metals, aluminum, hogs and lard, cotton and linseed, have already shown some easing. Coffee, cocoa and wool have sold below the ceiling prices in recent weeks. As the supplies have increased, it has become easier to keep the prices at an even keel and even to relax many restrictions.

To summarize the developments on the anti-inflation front, this, then, is what has been happening in the past few months: the generating of purchasing power through war expenditures has reached a climax and has possibly declined somewhat, but, of course, still continues at around levels that would have been regarded as astronomical only a few years ago. Increased Treasury receipts indicate more effective piping off of the purchasing power through taxation, and the prospect of increased civilian supplies of goods promises an absorption of a larger part of individuals' income. At this point, however, the new wage-price control crisis has arisen which not only threatens to loosen the Administration's grip on the price-wage controlling apparatus, but, in the opinion of many pessimistically inclined people, is likely to lead to the collapse in the near future of the whole Government machinery for wartime economic control. The reason for this: the temporizing, undecided attitude of the Administration; and the increasing power of various pressure groups which the Administrations is afraid to antagonize for political reasons.

There is no doubt that the Administration's wartime economic control of inflationary forces has grown out of

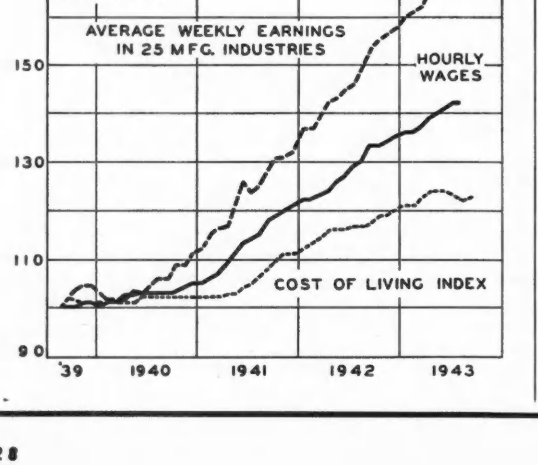
a patchwork of measures—some more successful than others. The taxation of the excess purchasing power has been fairly successful. The price-wage control is evidently less so. But the weaknesses are evidently just as much due to the rigidity of the whole price-wage control as to the pressure of special groups to get the most out of the war.

The present Administration price-wage control has been built around the Second Price Control Act of October, 1942. The object was to freeze the cost of living as of September 15, 1942. However, because of the pressure of the farm bloc, no ceilings were put on agricultural prices, which were permitted to rise to the "parity" levels. The result was the squeezing of the margin of the processors and distributors, which jammed the retailing end and led to the appearance of black markets.

The failure to keep food prices down has been in turn used by organized labor as a pretext for breaking the so-called "Little Steel" wage formula under which wages—after being adjusted for the rise in the cost of living—were frozen as of May 15, 1942. The formula was denounced as arbitrary and rigid, and organized labor was represented as shouldering "a larger share of the anti-inflationary burden than some other segments of the society." Actually this was far from the truth, for wage increases continued to be granted but on other bases; the average weekly earnings in fact advanced some 11 per cent between October, 1942 and September, 1943 and were some 57 per cent above the pre-war level.

Nevertheless the Administration attempted to placate the workers. The Director of War Mobilization restored the authority of the War Labor Board to make wage adjustments and to "correct inequities". Early in the summer a food subsidy program combined with a "roll-back" or reduction in the prices of subsidized foods was set going. The cost of holding down the prices of meat, cheese, butter and several other items was to be about $800 millions a year. More recently a $100 million subsidy to hold down the prices of flour and bread was to be added.

The defeat of the Administration's "hold the line" policy is recent history. About a month or so ago, Mr. Ickes capitulated to the United Mine Workers on the wage increase issue. Within the following few weeks, Mr. Murray told the CIO that the unions would demand wage increases, breaking the "Little Steel" formula. To all this the President took a delaying action, appointing a committee from the War Labor Board to make a fresh study of the cost of living, one purpose evidently being to prepare another "line of defense" to fall back upon.



The defeat of the Administration by organized labor encouraged the opposition of organized farmers against subsidies, although in his message the President expressly asked Congress not to oppose subsidies, and, in fact, to increase the appropriation for them. The farmers argue that subsidies put a ceiling on farm prices at a time when increased production is needed—which can be obtained only through the incentive of higher prices. They point out that industrial wages have gone up so much that the farmers are getting a smaller proportion of the consumer's dollar than ever before—or to put it in other words, that they are not getting out of the war as much as the other organized groups. The subsidy bill has already been defeated in the House, but it is still a question whether the farm bloc together with a few Republicans will ultimately muster enough strength to over-ride the presidential veto.

UNITED STATES, CANADA AND GREAT BRITAIN

	Wholesale Prices Jan-June 1939	Wholesale Prices August 1943	Cost of Living Jan-June 1939	Cost of Living August 1943	Hourly Wage Rates 1939	Hourly Wage Rates Latest
United States	100	135	100	124	100	157
Canada	100	137	100	118	100	126
Great Britain	100	166	100	129	100	136

Taking all the things together, "the patchwork" of the Government price-wage control policy is going through another crisis, with, as the recent editorial in the Christian Science Monitor puts it, "the President standing in the middle and continuing his balancing act (between farmers and labor) as best his administrative limitations and political commitments will permit." Some compromise will be reached: labor will eventually get higher wage rates, possibly tied to the cost of living index as in Canada. The Government will undoubtedly keep some limited subsidies on foods and the farmers will have won slightly higher prices. The whole price wage structure is likely to move slowly upward over the next few months. In the mean time, the deflationary influence of the prospect of larger commodity supplies for civilian consumption and of the sudden end of the German war will probably be getting stronger and stronger.

Hence, even if the Administration is defeated and forced into another compromise with the pressure groups, farmers and labor, the danger of uncontrolled inflation, while always present, isn't probably much greater than it was before. With taxes continuing to increase, the nation will probably keep on being a "cautious spender" as in the past. People as a whole are aware that it is not only unpatriotic to bid up prices, but foolish, now that the end of one war cannot be very far off. The producers are also hesitant, with so much talk about reconversion to peacetime lines, and they know that their excess profits will be taken away by the Government anyhow.

What is to be deplored is that the gains of higher prices by the farmers and of higher wages by factory workers are being made at the expense of unorganized groups, white collar workers and people with fixed income in general, who some day may not be able to buy

farm or industrial products. As far as the Treasury is concerned, higher wages are bound to lower taxable income of industrial enterprises and eventually to widen "the inflationary gap"—the difference between the spendable incomes of individuals and the goods and services available for civilian consumers.

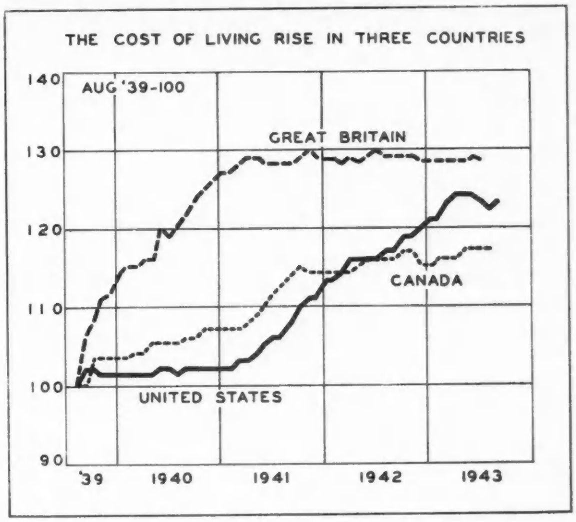
Despite all the temporizing, however, the Administration has not done so badly in controlling inflationary forces. The war is of course not over yet, and inflationary danger will hang on even when the war is ended. The movement of our wholesale prices and cost of living has not been much different from that in Great Britain and Canada, and definitely better than during the First World War. However, the comparison of farm price movements and of wages is less favorable.

Although we spent on the war from the middle of 1940 up to November, 1943 almost $150 billions, or nearly five times as much as the war expenditures from 1917 through 1919 ($29 billions), our wholesale price level rose only about one-fourth as much. Similarly the cost of living advanced during the present war only a fraction of its advance during World War I.

In contrast with wholesale prices and the cost of living, the wartime gains of organized pressure groups, labor and farmers, as measured by various indexes, are a rather sad commentary on the Administration's lack of courage to curb them. Farm prices, for example, advanced as much as in the First World War, and the cash income of farmers is about 2½ times as high as in 1939, although the volume of farm production rose only about 30 per cent. The average weekly payrolls of factory workers advanced almost 90 per cent since the Summer of 1939, not yet as much as in the First World War.

Great Britain, as a whole, has probably done a better job than we have, although the British Government did not try to prevent some inflation at the beginning, as slowly rising prices and wages have been regarded as a stimulus to production. However, since stabilization was decided upon—in the Spring of 1941—the prices and the cost of living have been maintained at an admirably level keel, though the task has been more difficult in view of relatively larger Government expenditures than here and a smaller volume of goods available for civilian consumption. Total British war expenditures to date have been around $60 billions.

The British achievements have been undoubtedly due



to much stiffer taxation than in this country and to more widespread rationing. Since a large part of British foodstuffs and raw materials is imported, the application of various controls has been relatively simpler than here. It is said that the prices of foodstuffs and articles covering about 90 per cent of the average housewife expenditure are now regulated. In general, the British have concentrated on the cost of living items and allowed the prices of luxuries to rise, often helping them along even with stiff consumer taxes. Subsidies have been widely used, their cost approximating about $720 millions a year.

There has been no rigid formula as in this country or in Canada for the stabilization of wages, the unions reserving the right to ask for increases whenever necessary. Adjustments in wages are being made right along; the National Arbitration Tribunal, the decisions of which are legally binding, has the last say on the subject.

While in this country average hourly wages went up some 57 per cent and the cost of living about 24 per cent between 1939 and August, 1943, in Great Britain the rise in hourly wage rates has been about 35 per cent since the outbreak of the war and about 29 per cent in the cost of living index. The British weekly factory earnings are up about 65 per cent, compared with 86 per cent in this country.

In the Dominion of Canada, the freezing of both prices and wages was enacted as early as the Fall of 1941. A system of wage bonuses was adopted, which is adjusted every three-months according to the fluctuations in the official cost of living index. Subsidies have been used principally to absorb increased costs of a number of imported commodities and to maintain the domestic output of certain essential commodities, such as milk and cheese, under the conditions of rising price costs and price ceilings. The cost of subsidies is expected to reach some $200 millions by the end of the present fiscal year, i.e. next March.

In the mean time the Canadian cost of living index has remained remarkably stable, in fact so much so that this stability is causing irritation among the wage earners who complain that the cost of living does not show the true state of affairs. Labor has become restive and upward wage adjustments have become widespread.

UNITED STATES
PRICES, COST OF LIVING, WAGES, EMPLOYMENT

	World War I 1913	World War I 1920	World War II 1939	World War II Sept. 1943
Wholesale Prices	100	221	100	134
Cost of Living	100	203	100	124
AGRICULTURE				
Farm Prices	100	211	100	189
Production	100	114	100	130(e
Cash Income	100	201	100	230
Ratio of Prices Received to Prices Paid	100	105	100	158
MANUFACTURING				
Production	100	128(*	100	241
Employment	100	121	100	170
Hourly Wage Rate	100	245	100	157
Weekly Earnings	100	232	100	186
Purchasing Power of Wages	100	114	100	138
Production per wage earner	100	106(*	100	141

(e—Estimate
(*—1919.

The Tax Factors that will aid industry when War Volume slumps are already casting some advance shadows

Companies Benefitting Now From Tax Cushions

BY H. F. TRAVIS

IN The Magazine of Wall Street reference has been made from time to time to the "tax cushions" inherent in the workings of present corporate taxes; and it has been stated that, even if industrial volume declines sharply in the early post-war readjustment period, these cushions would in large measure insulate corporate *net income* from shock.

How this will work is not a matter of theory. It is interesting to note that *current* earnings reports reveal a few instances in which profits are *already* being stabilized by the tax cushions—without which the reported net per share would have been sharply lower. Examples are to be found especially in the building materials and machine tool industries, in both of which some companies have experienced a substantial decline from year-ago figures of volume and pre-tax earnings.

The results are indicative of what you can expect in much more numerous instances when, following defeat of Germany, there is a major decline in war orders. Both because the current examples are significant in themselves and because they throw a prophetic light on the shape of things to come, we are devoting this brief article to them.

The largest "cushion" in the list of companies in the accompanying table is that of Ruberoid. For the three months to September 30, 1943, the net income was $526,327 less than in the corresponding period of 1942. The normal and surtax for the 1943 period was $139,400, against $104,800 for the third quarter of 1942, but excess profits in the 1943 period were much smaller, for the tax was only $116,500 against $722,000 in the 1942 period. The result was that net after taxes was almost equal to last year, leaving out the post-war credit figures and contingent reserves. With the latter two items included, the 1943 net was about $50,000 under last year. The percentages of tax to net before taxes in 1943 were 55.9% and in 1942 were 79.9%, making a "cushion" of 24.0% this year.

Another company in the building supply trade was in second place in this measure of tax relief through smaller excess profits tax deductions this year. Flintkote reported $488,196 lower net before taxes for the twelve weeks ending October 9 than in the similar period of 1942 but taxes were $507,772 under those of last year, with the result that net after taxes in the 1943 period was actually $19,476 *more* than the year before. In the current year, 54.0% of net earnings were paid in taxes against 71.0% in 1942 for the similar period, making a "cushion" of 17.0%.

Johns-Manville, likewise one of the building supply companies, had a 13.5% "cushion" for the third quarter of 1943, when it reported nearly $2,800,000 less net be-

	Net Income Before Taxes* 1943	1942	Taxes Paid 1943	1942	Net After Taxes# 1943	1942	Percent of "Cushion" in 1943@
Air Reduction	$4,763,114(d)	$5,087,125	$2,943,919	$3,345,597	$1,819,195	$1,741,528	8.1%
Bullard	4,246,608(a)	6,877,729	3,397,000	6,067,000	749,608	810,729	8.5%
Clark Equipment	6,959,362(b)	10,481,705	5,744,000	9,250,000	1,005,919	1,231,705	5.5%
Flintkote	965,976(c)	1,454,172	521,825	1,029,597	444,151	424,575	17.0%
General Cable	8,184,151(b)	12,402,303	6,575,000	10,605,000	1,609,150	1,797,302	5.4%
Johns-Manville	4,487,495(d)	7,222,726	2,658,888	5,296,779	1,867,119	1,536,335	13.5%
Pittsburgh Coal & Coke	777,224(b)	912,877	275,000	472,425	502,224	439,472	11.4%
Ruberoid	457,738(d)	1,034,085	255,900	826,800	201,838	207,285	24.0%
Timken Roller Bearing	26,305,725(b)	31,703,955	20,136,700	25,917,000	6,168,525	5,786,965	8.8%
Western Auto Supply	1,070,961(d)	1,103,642	508,167	633,655	562,794	469,987	10.1%

* Net earnings after all normal charges excepting taxes.

\# From the net after taxes, all postwar, refunds are excluded on the credit side and all contingent charges on the debit; such items are really surplus credits or debits and not a true part of income, or charges against it.

@ This item represents the difference between the percentage of net income paid in taxes in 1943 as deducted from the percentage paid in 1942; in most cases the "cushion" resulted from a large decline in excess profits tax payments. See text for further explanation of the "cushion".

(a) six months to June 30. (b) nine months to Sept. 30. (c) twelve weeks to October 9. (d) three months to Sept. 30.

fore depreciation and depletion, over $2,600,000 less taxes, but a *larger* net after taxes. Excluding various items which might be considered as surplus charges or credits, the net figures arrived at for this study indicated that 60.0% of net was paid for taxes in the 1943 quarter against 73.5% in the 1942 period, leaving a 13.5% "cushion." The Johns-Manville figures for the nine months to September 30, 1943, show net before taxes nearly $4,600,000 under the same period of 1942, with taxes more than $5,400,000 less in the 1943 than the 1942 nine months, with resulting net income of $5,475,528 for 1943 and $4,605,135 for 1942.

The smaller companies also figured in the same way. Thus Pittsburgh Coal & Coke paid out 40.5% of its net earnings for the 1943 tax in the nine months to September 30 against 51.9% for the 1942 period, with the "cushion" 11.4%.

The figures on Western Auto Supply are included with the others, but as net income for the three months to September 30, 1943, was practically the same as in the year before, the decrease of $125,000 in taxes must have some other explanation than that of much less paid out for excess profits taxes. The 1943 taxes were 47.3% of net against 57.4% in 1942, making the "cushion" 10.1%.

Timken's Case Typical

Timken Roller Bearing had nearly $5,400,000 smaller pre-tax net income in the nine months to September 30, 1943, than the year before, but had a net after taxes nearly $400,000 larger. In this instance, the report shows that this was directly due to smaller excess profits taxes. In the 1943 period, from net income of $26,305,725, income taxes of $2,903,700 and excess profits taxes of $17,233,000 were deducted. In the 1942 period, the pre-tax net income was $31,703,905, the normal and surtax $2,917,000 and the excess profits tax $23,000,000. Using the company's report which had a post-war credit of $1,723,300 for 1943, and contingent reserves of $2,979,-800 for 1943 and $1,000,000 for 1942, the net income was $4,912,525 for 1943 and $4,786,965 for 1942. With the post-war credit and the contingent reserve eliminated, the figures would be $6,168,525 net after taxes in 1943 and $5,786,965 in the 1942 period. The percentage paid in taxes in 1943 was 76.4% and in 1942 was 82.2%, leaving a "cushion" of 8.8%.

Bullard Co. is one of the leaders in the machine tool business. In the six months to June 30, 1943, its pre-tax net income declined more than $2,600,000 from the same period of 1942, but its net after taxes was more than $300,000 larger than that of the same period in 1942, as set up in the company's report, which included $312,-300 in credits in the 1943 report; final net earnings figures were $1,161,908 against $810,729 for the 1942 period. With the credits left out, the 1943 net after taxes would be $749,608. In the 1943 period, 80% of net earnings had been paid in taxes against 88.5% in 1942, a "cushion" of 8.5%.

The Clark Equipment Co., for the nine months to September 30, 1943, had more than $3,500,000 decline in the net income before taxes. In the 1943 period, the normal and surtax payments came to $432,000 and the excess profits tax to $5,312,000. The two items were not separted in the report for the 1942 period which showed $9,250,000 total tax deductions. The company's report showed final net for the 1943 period of $1,642,641 against $1,231,705 in 1942, but in the 1943 figures were $636,722 credits for refunds. With them out, the net actually earned after taxes was $1,005,919. The company paid 82.6% of its net as taxes in 1943 against 88.1% in 1942, with the "cushion" 5.5%.

General Cable in the nine months to September 30, 1943, had a drop of over $4,200,000 in net before taxes but net after taxes was only $188,000 less. The tax bill was more than $4,000,000 less this year than last. The company paid 80.1% of available net income for taxes in 1943 against 85.5% in 1942, a "cushion" of 5.4%.

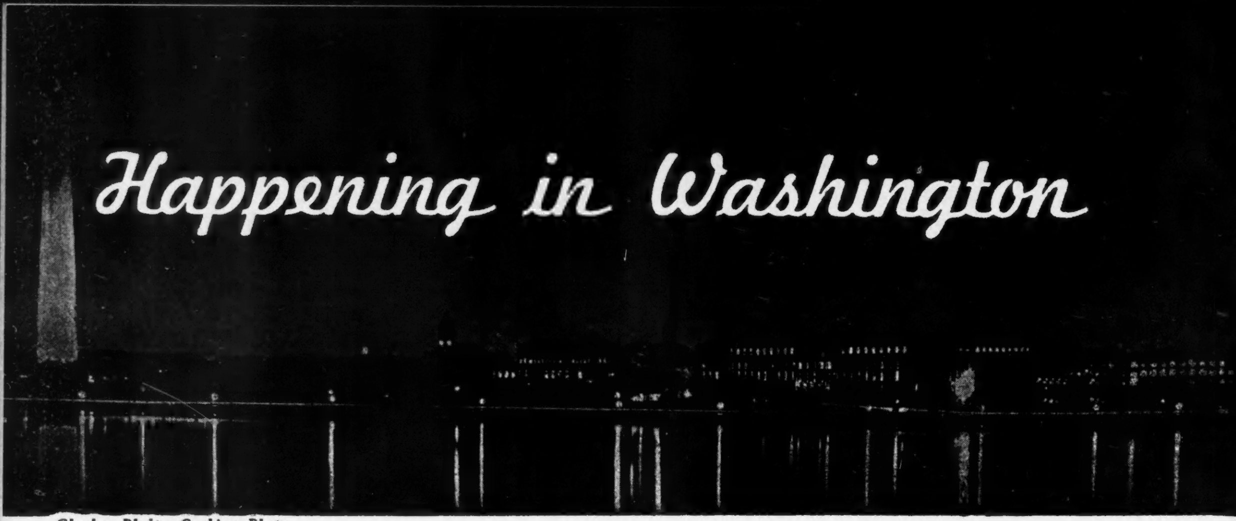
The Air Reduction net for the three months to September 30, 1943, was $324,000 less than in the same period of 1942, but net after taxes was $77,000 larger in 1943, a direct result of smaller taxes. The company paid 57.6% of its earnings in taxes in the 1943 period against 65.7% in 1942, with 8.1% "cushion."

A case which cannot be included in this list but is in a similar category is that of the Bigelow-Sanford Carpet Co. which reported net both before taxes and after taxes of $241,531 in 1943 for the nine months to October 2, stating that no provision had been made for taxes this year as it was expected that refunds on previous year's taxes would exceed any tax liability for the current period. In the similar period of 1942, the company had net before taxes of $3,485,282, normal and surtax payments of $750,000 and excess profits taxes of $1,425,000, leaving $1,310,282 net after taxes (before a contingency reserve of $250,000). In this case, the net before taxes was $3,243,000 less than in 1942 but the net after taxes only $1,169,000 less.

In examining these reports for companies showing this "cushion," Crucible Steel at first glance seemed to belong among them. For the quarter ending September 30, 1943, the net before taxes of $8,229,525 was $2,657,000 below that of the year before and the net after taxes was only $268,000 down, but on figuring out the percentage paid in taxes for each of (*Please turn to page 262*)

A home being insulated with Johns-Manville equipment for summer comfort in winter.

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

Temper of Congress on the subject of organized labor was never better illustrated than when the House wrote a "rider" into the Revenue Act requiring unions to submit annual financial statements. Before both houses several times before, this demand has been rejected with little formality in the past. The language of the House bill was not revelatory, to be sure, but a few voted without knowing its implications.

> ### *Washington Sees:*
>
> Almost lost in the welter of diplomatic rumor, second front and other European sector talk, is the fact that the important War in the Pacific is moving with unexpected speed toward the objective of repaying, in kind, the only Axis for who has pulled down the Stars and Stripes.
>
> Washington military men are saying that the American assaults on Japanese-held Makin and Tarawa may be regarded as preliminary moves toward reconquest of the Philippines. General MacArthur's campaigns in New Guinea are taking him toward the Philippines and the survivors of Bataan.
>
> Every move from the Aleutians down along the huge arc reaching clear to Australia, is but a part of the joint Army-Navy strategy for recapture of the Philippines in the shortest possible order. To MacArthur, reconquest is a matter of personal honor. Above all that, the recapture would destroy Japan's sea routes to the Southwest Pacific, French Indo-China, and Burma. Only a glance at the map is necessary to establish the importance of the move.
>
> The military high command has never underestimated the importance of the Philippines, although the public has lacked the information for true appraisal. It won't be easy—heavily fortified Truk blocks the main line; but the progress in recent weeks is cheering top men of the military services.

Back to the Farm movement, spurred by Selective Service deferments for farmers and by inflation threats, is worrying the Department of Agriculture on practical grounds, namely, that tillage may fall into untrained, unsuited hands, sink economically. The cure is planned in the form of legislation, a bill to cure farm land speculation by assessing heavy capital gains tax on resales.

Good Neighbor relationship between the Americas has suffered permanently by Senator Butler's castigating review of United States policy following his rapid tour of the republics to the South, where he went to call on fellow Rotarians. Whether pouring of money into what Butler termed "New Deal Boondoggle" was a good investment remains to be seen. Only evidence at this point is that 19 of the 20 republics there have broken with the Axis and opened their resource chests to us, 13 actually have declared war on our enemies.

Dividing Issues, which are naturally related, are clouding Congress' view of the overall inflation picture. The two-billion dollar tax bill, anti-subsidy move, and railroad wage problem were separately regarded in both Houses. Yet, defeat of subsidy means higher farm prices, overriding Vinson on rail wages means increased pay all along the line, and the amount of taxes proposed to be collected under the new Revenue Act holds no threat to the march of inflation.

Air Supremacy by the United States is proved not in statistics but in performance in the Pacific. Conquest of Gilbert Islands, air experts say, demonstrated the fundamental weakness of Nippon. Japan has always been qualitatively inferior—witness the 5-to-1 box score chalked up by Yankee fliers. The Islands conquest, made when Tokyo had its blue chips down and would drain every possible source of supply, established the quantitative superiority. This augurs will for the forthcoming major campaign in the Pacific during which the Navy is expected to provide the principal fireworks. With Japanese air power, inferior or inept, it would not surprise to see the Navy back in the Philippines in a year hence.

AS WE GO TO PRESS

Enactment of the Connally resolution on post-war international relationships dealt the first serious blow to the Wendell Willkie boom. Solidly supported by republicans, it went far to thin the coming campaign to domestic issues.

Until now, Fourth Term engineers have been pointing to the G O P as the party of isolationism; warning that the peace can be lost after the war is won, unless better relations are promoted among the Allies. Obsequies for republican isolationism were planned at Mackinac Island, performed in Congress.

The Grand Old Party, if forced to present a candidate who could meet FDR on anything resembling equal plane in the field of international relationships, could not pass over Willkie. The field was his on that score; he boasted the decision was his and he was right -- until the Connally resolution intervened.

Republican gains in the November election actually were not the party's most important advances in recent months. The Administration has been suffering from what is tantamount to votes of "no confidence." Congress junked the Administration tax bill; wage increases for the rail brotherhoods set leading New Dealers in conflict with the Vinson Office.

Regardless of what President Roosevelt may do to reinstate his food subsidy program (and it may be marked down right here that he will do something) the resounding thwack given the idea by the House will have disturbing effect upon his political fortunes.

All of which is by way of saying the Republicans are at political rip-tide, possibly in the best political shape they have been in a dozen years; but, in the opinion of the Capital's best analysts, still able to kick over the applecart —and, if history repeats, likely to do so.

Selective Service System passed its third anniversary November 27 with Congress still going through the motions of "saving" pre-Pearl Harbor fathers from military service and local draft boards all over the country drafting registrants of that category into uniform.

Congress did not attempt a prohibition against inducting fathers. There was no one on Capitol Hill who claimed Selective Service could continue on that basis. There was no genuineness in the Congressional campaign and it was ignored by Selective Service Headquarters and the local boards. The lawmakers interest proved strictly "professional."

Failure of the WAC-WAVE recruiting drive was one of the reasons why the the bin of eligibles had to be scraped. The WAC alone was 53,000 enlistments short of what was originally thought to be an easily attainable goal. These women intended to replace men for combat service.

And this comes at a time when the War Department is having trouble recruiting needed civilian employees. The Byrd Committee announcement of a drive to lop 100,000 jobs off the Department payroll broke into print the same day that Department released, nationwide, its appeal for qualified persons to come here. The results were as expected, one announcement neutralizing the other.

Dollar-a-year men will come back into notice shortly with a one-man campaign by Rep. John M. Coffee, "liberal bloc" leader, spotlighting the costs of maintaining experts who receive no pay envelopes.

Coffee wants names and amounts paid to all dollar-a-year men made public (they receive, in addition to their $1, costs of travel, and some other statutorily determined reimbursements.) Not only what the government pays them, but also what private business contributes are topics for the Coffee probe.

Agencies which make use of these experts have blundered from the beginning, still are . Instead of making public names of all dollar-a-year assistants, they have hidden the facts, allowed an impression to go abroad that something is wrong, something can't stand the light of day. The inference can't be escaped; hasn't been.

Including experts who are paid on a per diem basis when actually on duty, at least 2,500 men in Washington government offices are not on a regular payroll. Rep. Coffee says he's looking only for facts, but give-away was his comment: "Many of them aren't worth $1 a year."

Appointment by Gov. Charles Edison of Arthur Walsh, social and business associate, to be U. S. Senator from New Jersey was a serious blow to Leon Henderson, former O P A chief, who tought he had the job "cinched." "I was told I was the only candidate who could unify all groups," Henderson moaned.

Walsh is perhaps the only U. S. Senator who got his job because he can play a fiddle. Thomas A. Edison liked Walsh's playing, felt relaxed under the strains of the young man's music, gave him a job in Edison industries to have him handy.

The great inventor's son, who was destined to become Governor of New Jersey, is a pianist and organist. Charles Edison and Walsh often got together for boogie-woogie (1915 version), grew up together, advanced together in the Edison corporations. Opportunity presenting itself to pass out a real political plum, Edison gave it to his fellow instrumentalist.

War contract terminations have moved far beyond the discussion stage, are taking on accelerated speed. To date, terminations are pushing toward the 10.000 mark, involving in excess of six billion dollars.

Against a prospective total war budget of three hundred billion dollars, conservative estimates of contracts that will be terminated aggregate seventy five billion dollars. After World War I, contracts were promptly terminated and industry left to grope its way back to peacetime operation.

Basis of tearing up war contracts by mutual consent, when the current conflict ends seems agreed upon in legislative circles as this: First, an immediate and substantial cash payment in liquidation of damages and discharge of accrued liabilities; Second, final settlement within weeks, or within two or three months at the outside.

The big shock to production and employment will come within the first few months after defeat of Germany, not after end of the war with Japan. Army experts believe that war production could be cut back by anywhere from 50 to 80 per cent very quickly—if the decision was based solely on military needs. Thus, the toughest part of the transition crisis may well develop within the second half of the new year.

But can you imagine the Administration planning for a tailspin in employment on the eve of the presidential election? Assuming the European war is over by summer, war production will be cut back substantially but not by as much as the military situation would justify. It will be easy to make a case for continuing billions of war production in the interest of orderly transition. Besides, the Administration's calculation of military supply needs--whether or not on the high side-- could not be successfully challenged.

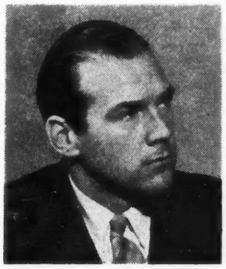
Once Germany is defeated, Washington will put major emphasis on getting production of civilian durable goods started as rapidly as possible. The end of the war with Japan probably will come at a time when civilian production has been restored to a high level and thus should involve far less economic dislocation and readjustment than that following collapse of Germany.

It may actually be possible to take care of Japan predominantly with equipment and supplies previously accumulated. In any event, the problem will be far more one of transportation and bases than of production.

Investment Information Please

The Question: Major or Minor Decline in Business Activity in the First One to Two Years of Peace?

"Nose Dive" says J. C. Clifford



FOR the first year or two of adjustment after the war, and I consider this period to commence with the termination of the European phase, a decline in business appears inevitable in my opinion. One of the main reasons, as I see it, is the lack of a central economic policy despite the seeming nearness of that important turn in the road ahead. It will mark the beginning of a most crucial period; its handling will largely govern the degree of success we shall have in establishing quickly a sound economy when the global war is over.

Most observers are in wholehearted agreement that the post-war outlook for industry is good, that the level of activity should remain relatively high but few have offered concrete ideas just where large numbers of demobilized soldiers and discharged workers from strictly war industries are to find jobs. Unemployment looms as the principal post-war problem and is universally recognized as such. The most formidable barrier to overcoming it is the absence of a precise national policy for maintaining employment and production; while such a policy will eventually evolve, I fear it will only be after a painful delay.

Germany's collapse, now foreseen by mid-1944, will intensify rather than diminish the adjustment task since plainly we are not ready for it. When the last shot has been fired in Europe, some 5 million workers will be slated for release from war plants, some 2 million troops for discharge from service, according to current estimates. War spending is expected to drop to some $5 billion monthly, against $8 billion currently, and will gradually tend even lower since existing immense stockpiles of war materials and supplies will enable us to wage war against Japan with a relatively small part-time effort of industry. If Japan is defeated in 1945, spending for war is expected to drop to $3.5 a month by the end of 1945, and thereafter should quickly decline further to between $1.5 and $2 billion a month, approaching the probable post-war level of Government expenditures.

In other words, we are faced, during the first year of partial reconversion, with the task of absorbing some 7 million men into private, that is non-war employment, and of reconverting at a pace that would compensate in large measure for a drop in war spending of some $36 billion, possibly as much as $50 billion annually. Can it be done? I seriously doubt it.

Both problems are closely interrelated; they center on the speed of reconversion and the ability of industry to find outlets for its products. As to the former, we must, first of all perhaps, consider not so much technical reconversion problems but the atmosphere in which the change-over is taking place. It will in the first instance be an atmosphere of great uncertainty which in itself will tend to delay. Important questions, as yet unsettled, will suddenly be pressed for decision. They include contract termination, disposition of Government plants and facilities, disposition of surpluses, continuation of business and materials controls, dismissal pay to war workers and taxation. None of them are self-answering, rather they promise to create a maze of individual problems and intensification of doubts which may well severely hinder smooth reconversion even on a partial basis. And while Government and industry are endeavoring to work out solutions in advance, this in many cases cannot be done until the problem becomes acute, when prompt action is needed.

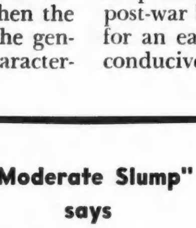
As reconversion proceeds, revived civilian production will benefit by the stimulus of pent-up demand in many fields but it will be at best a gradual and limited resur-

gence, subject to numerous controls; most importantly perhaps the revival will be a barometer of confidence. With demobilization and its resultant severe dislocations impressed on the public mind, consumer demand in my opinion is not likely to be very exuberant at first but rather restricted to necessities. With full demobilization and reconversion yet to come, how can confidence abound unless policies are instituted *now* which will remove any vestige of doubt about our readiness and ability to assure full employment? Such policies are not yet in sight.

Even ignoring this factor and assuming a substantial buying wave, revival of consumer goods demand alone is hardly enough to offset the drop in war spending, and reconversion in heavy industries will be slow, with few exceptions. Revival of building construction, our best bet for post-war prosperity, will be equally slow in getting under way on anything like a sufficiently large scale to carry real weight. Here, too, the confidence factor will be found paramount and expectation of better building bargains later may also retard. Nor can we expect, during that interim period, a quick and large flow of private investment into industrial channels to cushion the impact of partial demobilization and reconversion; rather, new capital investment will not be undertaken until after the end of the global war when the outlook should be much clearer. This stresses the general psychological handicap which is likely to characterize the entire period under discussion; the fact that it is an *interim* period, a bridge between peace and war, a period when the outlook while clearing will still be sufficiently obscure, in many respects, to hinder free deployment of our resources for peace. It is, in the last analysis, a period of preparation and not of all-out action. To assume that at the same time we can also cope successfully with the tremendous social problems that arise, and compound the whole into a business boom, is rampant optimism.

Most official circles are resigned to see considerable unemployment; how great it will be is uncertain. Estimates have run as high as 14 million after full demobilization, though there may be only about 3.5 million unemployed during the first reconversion year. But even then, will existing liquid savings be spent promptly to fill the gap? I greatly doubt it. Rather I anticipate that the general economic indigestion will be such as to require aggressive Government measures to offset its severe deflationary effect. In turn, this spells continuance of high taxes, of far-reaching Government controls to sustain a measure of economic balance. But no amount of Government subsidy will make up for the drop in national income. It will however necessitate a post-war budget of some $30 billion, affording little hope for an early tax decline. Such an atmosphere is hardly conducive to business expan- *(Continued on page 265)*

"Moderate Slump" says Ward Gates



THERE will, of course, be a substantial decline in industrial production and in employment in the early post-war transition period, beginning soon after the defeat of Germany.

On that statement of fact a pessimist can easily go on to paint a very black picture. In this case the difference between the pessimist and the optimist is mainly one of psychological perspective. The pessimist emphasizes how much must be given up; the optimist emphasizes how much will be kept. I am not splitting hairs or playing on words. A rational perspective is essential to clear thinking.

We are now using up vast quantities of materials and employing many millions of people in production for war. This production of itself does not add to our wealth nor raise our living standard. In an economic sense it is sheer waste. Moreover, we have paid for a goodly proportion of this war production by, in effect, printing money. We can "get away" with this completely abnormal condition only for a limited period. Obviously, permanent war production on the present scale would in due time drastically lower our living standard and wreck our monetary system. Obviously, today's dollars—in greatly swollen total—can be kept "good" only if we switch as soon as possible from uneconomic production to economic production.

As a nation we can lose nothing of economic value by cutting down war production; only when we *do* cut war production can we increase the present abnormally low production of goods and services for civilians; and only when we increase this *economic* production can we have a condition that could accurately be called either "normal" or "prosperous."

It is clear that in the readjustment period—which will be most difficult during the first six to twelve months after collapse of Germany—more war production will be taken out of the Reserve Board production index than can be replaced by increased non-war production. Therefore employment must decline. Also total man-hours of work must decline more than will the number of individual jobs, because it takes less man-hours of labor for civilian production than for the intricate mechanisms of war.

But here, too, there is a question of perspective. Today we have an abnormal, inflated employment situation. There are approximately 62,000,000 persons gainfully occupied or in the armed forces. This is about 56 per cent of all persons over 10 years of age. In 1929—certainly a prosperity year in which the Reserve Board index (1935-1939 = 100) averaged 110—the percentage of gainfully occupied persons was 49.6. In 1927 it averaged about 44 per cent; and although the production index attained a level as high as 121, or 21 per cent above the base or "normal" period, unemployment at no time fell below 4,500,000 persons; and for the better part of the 1936-1937 business expansion cycle it averaged closer to 7,000,000 persons.

There is some reason for a suspicion that the entrance of government into the business of unemployment relief and unemployment insurance in a big way has tended to give an artificial inflation to the unemployment figures. Until the war opened up better opportunities, it had—to the writer's personal knowledge—become routine for many people who never before sought jobs to get and hold employment only long enough to qualify for the specified number of weeks of unemployment compensation.

As a long term matter, it seems logical to figure that

the ratio of employed people to the total population should gradually decline rather than increase, for in a high and advancing material civilization there is less necessity than formerly for married women, youths and the elderly to work. At any rate, the evidence (see 1937) is that if we can employ 44 to 46 per cent of the population we will have a condition which, though not "full employment" as the dreamers conceive the term, is certainly not incompatible with a high level of production and trade as judged by "normal" standards, though not by today's absurdly inflated standards.

The nation does not "owe" permanent war-plant jobs at fancy pay, or any other kind of jobs, to housewives, school-age children and others who are not any real part of the normal labor force available. Assuming defeat of Germany by next summer, if in the first year thereafter we employ as high a ratio of the population as in 1937, that would be less than 51,000,000 people, against some 62,000,000 now employed, or the "disemployment" of around 11,000,000. The highest estimates of the normal labor force to be available after the war put it at 56,000,000. Thus, if we had literally full employment of the prospective labor force after the war, that would represent a shrinkage of 6,000,000 in present employment.

In the opposing argument, which I have read in advance, Mr. Clifford does not exaggerate the probable statistics of unemployment in the adjustment period—if anything, he understates them—but I contend that he greatly exaggerates the significance of the coming readjustment in employment so far as it relates to normal business activity.

It will be agreed that the most enduring gain—the only gain in real wealth—brought about by the war effort is that represented by great enlargement of producing resources and remarkable advance in producing techniques. As with the Civil War and the First World War, our "economic base" has been lifted. In time, something less than "full" utilization of these resources will mean a business activity far higher than ever before known in peace. But this, of course, is looking quite a bit ahead. What can we bank on in the first one to two years after the end of the European hostilities?

Favorable Factors

(1) It is to be doubted that war production will be cut as *rapidly* as some of today's more gloomy comment seems to imply. It will be tapered off over a period of months—deliberately so in the interest of avoiding an unduly sudden economic tailspin.

(2) For the two years of peace or part-peace here discussed, war spending—however reduced from the peak—will still be very large as compared with pre-war Federal spending; probably, at a minimum, over five times greater than the largest annual rate of New Deal "pump priming" of the 1935-1937 period. Even after defeat of Japan, we are not going to junk our huge Navy or go back to a pint-sized Army.

(3) Huge deferred needs for consumer durables—headed by automobiles and homes—will have accumulated. There is no question in my mind about this demand or the liquid savings that will be available to finance it. Certainly for the first year of peace in Europe, demand for consumer "hard" goods will greatly exceed supply; and this probably will be true of the second year also in the case of the two most important types of durables: namely, automobiles and homes. This would be true even if there were little cashing in of savings and employment were 10,000,000 less than now. In short, the problem here for the *early* peace period will be one of

The End of a Day's Work

supply, not demand. You can bank on the Government moving heaven and earth to expedite reconversion and the most rapid possible expansion in output of consumer durable goods simultaneously with the tapering off in war production—present surface indications of "planlessness" to the contrary notwithstanding. And you can bank on industrial management coming through with marvels of reconversion speed. I don't accept the loose suggestion that the technical and physical and governmental difficulties will be greater than were those involved in the conversion to war production. The exact contrary will be true.

(4) With minimum allowance for foreign relief and paid-for exports during this *early* peace period, I can not envision any significant decline in demand for food, clothing and other "soft" goods. I hold that, in the interest of civilian business activity, personal income taxes—especially in the lower brackets—will be reduced at least to some extent quite promptly. Against reduced spending by present war workers, we must allow for increased spending by a considerably larger number of individuals who are now "set" in their jobs and who are now spending less than normally, partly due to higher taxes but also due to patriotic compliance with the Government's anti-inflation objectives.

To sum up: If (1) there is continued high demand for "soft," or consumption, goods throughout the transitional period; and if (2) demand for consumers durable goods exceeds supply; and if (3) war—or defense—spending for those two years averages $25 billion a year (considerably less than a third of the present figure)—where is the depression to come from?

Instead of asking how much production will come down from the war high, I think it far more realistic to ask: How much above the pre-war average will business activity be? At the lowest point, I venture to hold, business activity will be at least 30 per cent larger than the 1935-1939 average; and that *average* business activity for the two-year period following termination of war in Europe will probably be 60 to 70 per cent higher than that of 1935-1939.

The most truly basic problems that we shall eventually have to be concerned with are not those of the post-war transitional phase nor of the subsequent "catching up" expansion period—but what is going to happen after the period of abnormally large demands has run its course. The *present* basis for confident optimism as to that is far less strong than the existing basis for reasoned bullishness on the first two years of peace.

Promising Peace Stocks With a "Plus" Potential

Non-War Companies Now Paying Large Excess Profit Taxes

BY ROGER CARLESON

THE accompanying table presents a diversified list of companies which seem likely to prosper in the post-war era. All of these companies are now paying large excess profits taxes in addition to normal and surtaxes. Goodrich, for example, is paying EPT of $19.60 per share, which leaves only $5.72 for the stockholders.

Business men are hopeful that after the war Congress will repeal the excess profits tax as early as possible. Certainly it will be first corporate tax to be changed. However, this would not mean a complete saving of the amount now paid in excess profits taxes, for the normal tax would still apply to the balance on which EPT are now paid, and hence only about half the amount would be saved. (The present EPT rate is 90%, less 9% post-war credit or current refund, compared with 40% for income and surtaxes. In the table the price-earnings ratios are shown both for actual 1942 earnings and for those earnings plus a saving of one-half the EPT. We comment as follows on the common stocks of these companies:

Celanese is a "leverage" issue because of the large amount of bonded debt and the three preferred stock issues ahead of the common. Dividend payments have been conservative, since the company has been engaged in an expansion program. As the leading producer of acetate yarn, the company has shared in the rapid growth of the rayon industry. It owns sole rights in America for use of the Dreyfus patents for cellulose acetate products including rayon, lacquers and varnishes. In addition to its huge output of rayon yarns, woven fabrics and staple fibre the company produces various chemicals and plastics, transparent wrapping paper, fabricated products, etc. Dr. Camille Dreyfus, the President, in commenting recently on experiments in the synthetic rubber field, stated:

"In a pilot plant, specially built for this purpose by your company, butadiene of great purity and lower cost has been produced by an improved process which is different from any of the butadiene production processes now sponsored by the Government. This celanese butadiene, processed into synthetic rubber, has been made into automobile and truck tires which have been undergoing extensive road tests all over the United States, which indicate that performance of these tires equals that of tires of natural rubber." While the company's earnings showed a decline in the 12 months ended September 30th, this was largely accounted for by a special contingency reserve.

American Viscose' record somewhat parallels that of Celanese, though the stock has less leverage. The company has financed a $65,000,000 expansion program since 1936 from earnings. It is the largest producer in its branch of the rayon industry, its viscose rayon yarns and fibre being used in the manufacture of numerous textile products—wearing apparel, draperies, upholstery, blankets, auto fabrics, etc. In 1942, the company sold 207,700,000 pounds of yarn and fibre, or one-third the amount consumed in the United States. While sales have doubled as compared with the average of 1931-5, share earnings have remained irregular due to declining profit margins, increased taxes, etc. Earnings for 1943 are expected to be around $3.40, a modest gain over last year. Plant is still being expanded and output is expected to show further gains in 1944. Further growth in the use of rayons is foreseen in the post-war period.

Bond Stores has enjoyed a rapid growth, sales having

about quadrupled in the past decade and further growth appears likely now that women's departments are being added to the stores. Sales (for cash or on a budget payment plan) are made through 59 stores spread widely over the country; the Broadway (New York) store approaches department store size. Earnings have remained steady in recent years despite the inroads of taxes. Capitalization is conservative, expansion having been financed largely through earnings. The company should benefit in the post-war period by sales of clothing to demobilized troops. Inventories still appear to be ample, the Government having relased more wool for civilian use. There might, however, be some risk of inventory losses in any post-war period of declining prices, since the company operates on a six months' turnover basis. Earnings for the current year are estimated around $3.00 or $3.25 per share. Sales lagged behind 1942 in earlier months, but October showed a jump of 29%, reducing the 10 months' decline to 2.5%.

B. F. Goodrich is fourth in size in the industry, but has better-than-average diversification, about 40% of revenues being obtained from mechanical rubber goods and footwear, while tire sales are about equally divided between original equipment and replacements. The company is operating three synthetic rubber plants with a rated capacity of 165,000 tons a year, under Government control, and also a $35,000,000 Government-owned shell-loading plant. While the company borrowed about $50,000,000 (V-Loan) to finance its war business, the financial situation remains good with a current ratio of nearly 3 to 1. Federal taxes are very large—excess profits taxes alone amounting to $19.60 a share. Earnings may also be affected by renegotiation of contracts. As indicated in the table, the stock is selling on a conservative ratio to earnings, particularly if the heavy EPT burden is removed. In the post-war period the use of synthetic rubber should help to stabilize profits, which in some past periods have fluctuated sharply with changes in the price of crude rubber.

Pepsi-Cola has had a dramatic growth record, sales nearly quadrupling in the period 1937-41. Share earnings jumped from 80 cents in 1936 to $4.93 in 1941, but due to a sharp gain in taxes, dropped to $3.31 last year and an estimated $3.50 for 1943. Despite keen competition, the company is considered to have good prospects for further growth in the post-war period. It has been handicapped currently by the shortage of crowns and bottles, as well as sugar allotments, but on the other hand has been aided by quota-free sales to the military areas.

National Dairy Products has moderate leverage due to the $64,416,000 funded debt, but a strong working capital position is maintained. Earnings have remained relatively stable and due to the conservative dividend policy (80 cents or about 40% of earnings), the stock is considered to be of semi-investment caliber. 1941 and 1942 share earnings were after heavy contingency charges for possible inventory declines.

Walgreen has enjoyed rather steady growth in sales and net earnings; despite tax burdens, share earnings have gained in every year since 1938, last year's figure of $2.27 exceeding that of 1929. Dividends have increased from 50 cents in 1933 to the present $1.60 rate. The current yield on the stock is about 6.4%.

Peoples Gas Light & Coke is one of the few utility companies to show any substantial gain in share earnings in the past decade. Despite payment of over $23,000,000 in taxes last year, compared with less than $8,000,000 in 1935, share earnings increased from $1.52 in the latter year to $6.10 in 1942. Earnings now seem fairly well stabilized around the $6.00 level, with $4.00 paid in dividends. After adjustment for possible cancellation of excess profits taxes in later years, the price earnings ratio works out at about 6.

Consolidated Natural Gas is a newcomer to the Big Board, the stock being currently traded on a "when distributed" basis. The company is a holding company controlling four retail gas distributing companies and one wholesale company, all formerly controlled by Standard Oil of New Jersey. (The stock is being distributed by Standard to its own stockholders December 15th.) The company's accounts are on a conservative basis, since the Standard Oil management did not follow a policy of "write-ups," but on the contrary charged some plant costs to operating expenses. Several rate cases are pending, one of which might have some adverse effects on earnings if decided unfavorably, but this would be largely absorbed by excess profits taxes in any event, it is estimated. The company is supplementing its subsidiaries' gas reserves by arranging to tap the new pipeline connecting with the Texas gas fields (this line has been approved by the Government and will probably be built in 1944). The management is expected to be fairly liberal with dividends, including year-end extras.

General Foods is a leading factor in the packaging of quality foods, manufactured from a wide range raw materials, and merchandises over eighty separate lines of branded goods. The company operates some 65 domestic plants and has others in Canada. Production of patented Birds Eye Frosted Foods, well known to every housewife, is growing rapidly with distribution aided by over 20,000 retail grocery outlets. Earnings for the war period will continue to be adversely affected by high taxes but the longer term outlook favors gradually rising profits in line with the expected expansion of markets for the company's newer product. Output is affected by variations in consumer income but is under the long-term favorable influence of a steady trend towards packaged foods. Despite the tax factor, 1943 net should improve somewhat over last year's $2.50 per share, assuming an equal contingency charge of 29½ a share; if so,

(*Please turn to page* 268)

	Price About	Share Earn. 1942	EPT per share	Earn. Adj.	Price 1942	Earn. Ratio Adj. 1942*
Celanese Corp.	31	$3.42	$5.94	$6.39	9.1	4.9
American Viscose	42	3.20	6.07	6.23	13.2	6.8
Bond Stores	33	3.41	5.36	6.09	9.7	5.4
B. F. Goodrich	37	5.72	19.60	15.52	6.5	2.4
Life Savers	38	2.71	2.58	4.00	14.0	9.5
Pepsi-Cola	46	3.30	3.02	4.81	13.0	9.6
General Foods	39	2.50	1.96	3.48	15.6	11.2
Peoples Gas (Chicago)	56	6.10	6.65	9.42	9.2	6.0
Cons. Natural Gas#	25	#3.19	#1.92	#4.15	#7.9	#6.0
Walgreen Co.	25	2.27	1.01	2.77	11.0	9.0
National Dairy Prod.	19	1.96	1.30	2.61	9.7	7.3

*Assuming that excess profits taxes are ended in the post-war era and that net savings (after deducting the income tax, about one-half the excess profits tax) can be credited.
#Estimated 1943 earnings and taxes.

Caterpillar Diesel Tractor preparing land for beans

Investment Audit of Farm Equipments

Which Stock is Best Buy?

BY STANLEY DEVLIN

RECENT official estimates that over nine million tons of food, chiefly from the United States, will be required for relief purposes within six months after the war ends serve to spotlight not only the huge task cut out for American agriculture but the potentialities of the farm machinery industry as well. For such a tremendous contribution to the urgent food needs of a war-weary world, superimposed on our own huge requirements, could not but be helpful to the makers of farm tools and implements for which deferred demand is already large. The latter, by the end of this year, is estimated at some $1½ billion or about two years output on basis of 1941 sales of $765 million.

Farm machinery production, severely curtailed for 1½ years, is now being greatly stepped up. A new order effective July 1st raised permissive over-all output to 80% of 1940 levels, at the same time ending earlier attempts to concentrate production among a handful of smaller or medium sized companies. Thus far these steps, taken to attain the Government's 1944 food goals, have not had the desired effect. Despite liberalization of restrictions, most companies were unable to advance output substantially owing to the slow flow of critical materials and parts. Of late, however, the supply situation has eased measurably; steel is now moving readily into consumptive channels as are most other critical items required by the industry. Simultaneously, war work has been tapering off, what with numerous contract cancellations and cutbacks, so that the proportion of regular line output should henceforth increase steadily relative to war work. Quite possibly, the farm implement industry will be the first to be fully reconverted, directly mirroring official recognition of food as a military and political weapon.

Apart from existing backlogs, the post-war outlook includes additional promising features. Industry sales normally vary closely with farm income; during the past decade the former ranged from about 2.2% of the latter in poor years to 5.4% in good years. With world-wide demand for foodstuffs likely to run high for at least several years, the prospective period of high industry activity should be proportionately lengthened. Further strengthening factors are (1) The long-term trend towards increased farm mechanization which should be greatly enhanced by the need for peak production in agriculture, probability of continued high farm prices for several years and the improved financial status of farmers generally who were able, for lack of other spending outlets, to reduce indebtedness materially. (2) The export potential. It is confidently expected that all occupied countries when liberated will be potential customers. South American markets will be expanded and there will be new markets in Africa, the South Pacific and the Near East.

All but one of the principal farm implement companies experienced a moderate decline in 1942 profits, partly reflecting the changeover of much productive capacity to war work but also due to the rapid rise of the tax burden. With armament work more than offsetting the effect of restrictions on regular output, aggregate volume this year is running ahead of last year's but earnings may be slightly smaller, reflecting narrower operating margins, except for companies with diversification in other fields such as Allis-Chalmers and Caterpillar Tractor. Where recessions are likely to occur, they should be nominal and the larger regular line business now projected suggests an improving earnings trend next year.

Armament output has been substantial but varied with conversion originally slow to get under way. In 1942, the share of International Harvester and Oliver Farm Equipment Co. was only 30% and 15% respectively. This year, the former's mounted to probably two-thirds of total output, the latter's to about 80%. But backlogs of ordnance work are now dropping sharply; in the case

of International Harvester, it currently stands at about $400 million against $700 million at the end of 1942.

Reconversion, now under way, should not be too difficult but recognizing its indeterminate cost, most companies have built up sizable reserves from earnings and are well able to tackle it promptly. Liquidity is pronounced, due to progressive liquidation of the bulk of receivables which normally run large because of predominance of instalment sales.

Marketwise, shares of farm machinery makers have on the whole behaved better than the general run of industrials, yet at the present juncture they appear moderately priced in relation to the nearby and longer term outlook. As a group, they have above average appeal, considering post-war earnings prospects but selectivity is nevertheless in order in considering commitments.

International Harvester, leader in the field, is expected to show net of around $3.25 per share for the fiscal year ending Oct. 31, 1943, compared with $4.95 for the preceding period, the effect of narrower margins on its huge volume of armament work; next year's results should be considerably better. Foremost farm implement maker by a wide margin, the concern has the advantage of being fully integrated, operating its own steel mills, coke ovens, iron ore and coal mines. Few corporations possess the outstanding financial strength of this enterprise. Working capital amounts to some $286 million whereof cash and marketable securities alone come to $161 million. Post-war reserves amount to $20 million; additional $22.11 million have been set aside against possible losses on foreign investments. Harvester has the largest sales and research organization in the field and normally is a heavy exporter with foreign sales averaging about 25% of output. Development and perfection of a mechanical cotton picker, to be introduced after the war, should lead to interesting possibilities.

World trade conditions after the war will have an important bearing on strictly long range prospects but the company's leading position in the farm equipment trade and its prominent place among truck makers should assure it its share in available business which promises to run quite large for a considerable span. On basis of dividend yield, currently about 4%, the common has little appeal, and selling about 13.4 times 1942 earnings, and about 20 times prospective 1943 earnings, has largely discounted nearby prospects. In view of the excellent longer term outlook, market possibilities should exist, however, in line with progressive reconversion leading to ascending earnings.

Deere & Co., second largest farm machinery maker, is expected to earn around $3.20 per share against last year's $3.51. The company normally produces a complete line of implements and is known as one of the most efficient in the business, having consistently shown highest earnings on invested capital. Its careful credit policy and conservative dividends have permitted constant additions to working capital which is approaching $100 against $62.95 in 1937. Both financially and technically, the company is well prepared to take advantage of post-war opportunities. At the end of the last fiscal year, cash amounted to $39.83 million and marketable securities to $22.78. Post-war reserves are $22 million, far in excess of probable requirements. Sales since 1936 almost doubled, revealing a steady growth trend which should continue with return to normal operations. From the standpoint of a potential buyer, the common is perhaps the most attractive though dividend yield (4%) is presently small. But selling barely 10 times 1942 earnings, and 8 times 1937 net, existing market possibilities are obvious.

Allis-Chalmers is second largest from the standpoint of total sales but third in respect to sales of agricultural machinery because its tractor and farm equipment division normally produce only 55% of total volume; the remainder consists of industrial machinery and electrical equipment. 1943 earnings should be around $3.75 per share against $3.34 for the preceding year, assuming similar reserves as set aside for the latter period. Nine months net, subject to renegotiation, was reported as $3.48 per common versus $1.75 for the like preceding period. Because of leverage provided by a relatively large overhead, future benefits of capacity demand should find particular expression in per share earnings. Statistically, the stock does not appear cheap. Dividend yield is only about 3% and currently, the equity sells at barely 10 times 1942 earnings, and slightly more than 10 times indicated 1943 net. In 1937 when sales were less than half of 1942 volume, it reached a high of 83½; that year's low of 34 is only a trifle above the present price of 32⅞. On basis of past demonstrated earning power and generally promising prospects, the stock should work higher as normal line output expands. The company's EPT credit is the highest of any of the four leading concerns in the field.

In view of its large percentage of war work (80%), J. I. Case may be somewhat slower in reconverting than most others. While volume this year should be well maintained, earnings are expected to fall below last year's $9.34 per share owing to narrower margins and heavier taxes. The longer range outlook, however, favors progressive recovery of income as normal line volume expands. Over the longer run, Case should fare as well as the average implement maker. The post-war status of foreign trade is of some importance since foreign sales in normal years comprised between 15% and 20% of total volume. While making a complete line of agricultural equipment, production of tractors is the largest single source of revenue.

A strong financial position has been consistently maintained. At the end of the 1942 fiscal year, cash and securities totalling $12.85 million more than covered current liabilities of $11.02. Notes receivable, normally an

STATISTICAL POSITION OF FARM MACHINERY COMPANIES

	Book Value 1937 per share	Book Value 1942 per share	Working Capital 1937 ($millions)	Working Capital 1942 ($millions)	Net Sales 1937 ($millions)	Net Sales 1942 ($millions)	Earnings per share 1942	Earnings per share 1941	Earnings per share 1940	Earnings per share Avge. 1936-39	Dividends per Share 1942	Dividends per Share 1941	Dividends per Share 1940	Dividends per Share Avge. 1936-39	Price Range 1943	Recent Price	*Yield %	*Price-Earnings Ratio
Allis Chalmers	32.70	41.93	32.70	82.59	87.35	195.96	3.34	3.23	2.84	2.55	1.00	1.50	1.50	1.94	43¼-26⅛	32⅞	3	9.8/1
Caterpillar Tractor	20.53	26.85	29.87	31.32	63.18	142.16	3.72	4.14	4.16	3.70	2.00	2.00	2.00	2.00	54½-40⅜	40½	5	11/1
Deere & Co.	18.67	32.03	62.95	99.04	100.39	133.51	3.51	4.03	3.33	2.91	1.35	2.00	2.25	0.50	43 -26	34	4	9.7/1
Internat. Harvester	65.63	77.48	247.17	286.02	351.92	364.52	4.95	5.87	4.11	4.20	2.50	3.00	2.40	1.60	74¾-66⅝	66½	4	13.4/1
J. I. Case	150.03	184.34	27.56	32.21	(e)27.42	(c)	9.34	13.23	3.45	7.70	7.00	3.00	Nil	3.75	132 -77⅛	121	5.8	13/1
Minneapolis-Moline	4.64	10.00	10.17	11.78	15.31	29.84	1.34	2.05	0.75	0.18	Nil	Nil	Nil	Nil	8⅜- 3	4¾	None	3.5/1
New Idea, Inc.	13.42	20.05	3.02	4.74	5.10	6.56	2.54	2.90	2.64	(b)2.50	1.10	1.35	1.60	(b)1.05	21⅞-13¼	18	6	7/1
Oliver Farm Equipment	58.40	76.72	10.98	20.12	26.20	28.45	4.87	4.93	2.56	3.03	2.00	1.00	Nil	Nil	50¾-29½	40	5	8.2/1

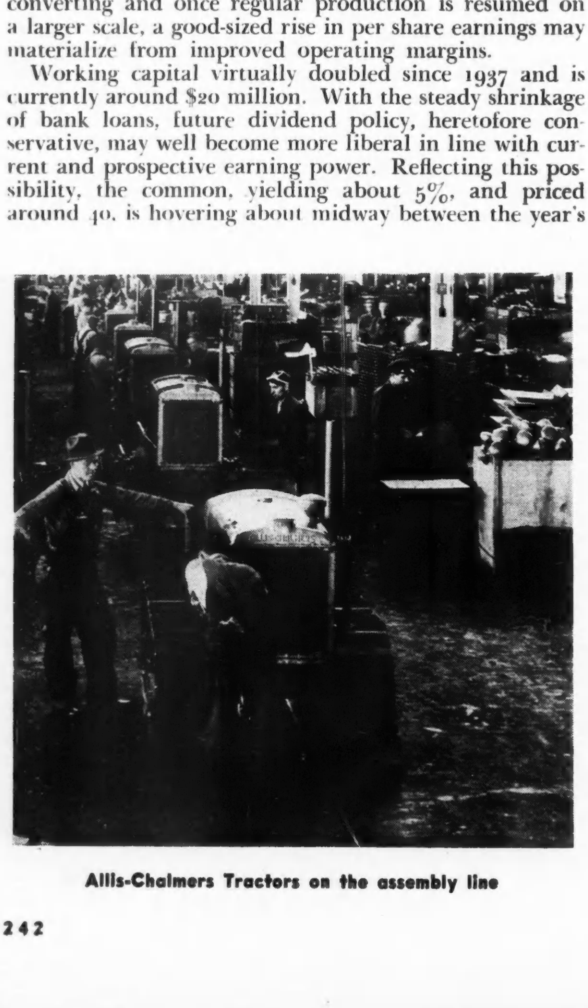
* On basis of 1942 earnings. (b) for 1937-39. (c) not reported. (e) 10 months ended Oct. 31.; 1941 net sales were $39.22 million.

important item among current assets, were only $3.60 million, indicative of the thorough deflation of civilian instalment sales. Past earnings were erratic, due in part to the leverage factor of small capitalization and relatively high overhead, and movements of the stock, the "blue chip" of the industry, were consequently highly volatile, responding to excellent earnings in good years and large deficits in depression periods. Dividends, while high, were also irregular.

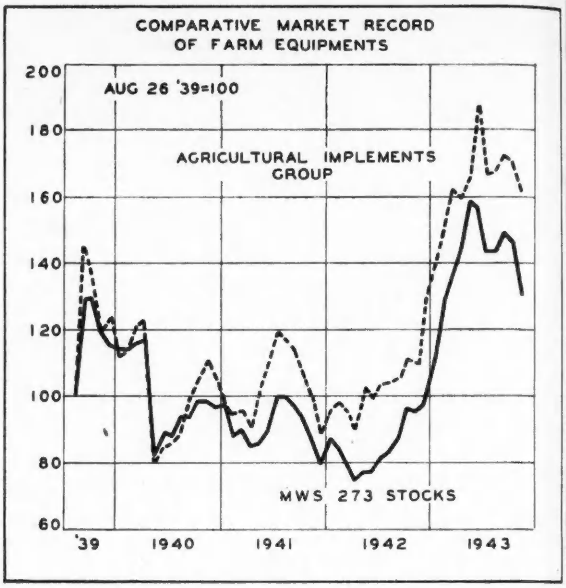
With the impending 4 to 1 split up of the common, greater market stability should be assured in the future which should impart added speculative attraction. Yielding 5.8% and selling about 13 times 1942 earnings, nearby prospects appear adequately discounted but future potentials should leave room for further appreciation although at the present price of about 121, the stock is clinging relatively close to the year's high of 132. 1943 low was 77⅛; book value is over $184 per share.

Among the smaller implement makers, Oliver Farm Equipment Co. stands out despite its erratic earnings record, the result of leverage of overhead. Oliver is a medium-sized maker of a fairly complete line of implements with tractor sales normally accounting for about 50% of total volume. 1943 net is estimated at about $4.75 per share, close to last year's $4.87. Dividend disbursements so far this year were $2 versus $1 in 1942 and 1941; prior to the latter, no payments were made despite fairly good average earnings which were largely used to bolster working capital and reduce bank loans, currently amounting to $1.87 million. Despite a sizable volume of war work, Oliver expects to have little difficulty in reconverting and once regular production is resumed on a larger scale, a good-sized rise in per share earnings may materialize from improved operating margins.

Working capital virtually doubled since 1937 and is currently around $20 million. With the steady shrinkage of bank loans, future dividend policy, heretofore conservative, may well become more liberal in line with current and prospective earning power. Reflecting this possibility, the common, yielding about 5%, and priced around 40, is hovering about midway between the year's



Allis-Chalmers Tractors on the assembly line



high and low, selling about 8.2 times 1942 earnings. While strictly speculative in the past, the stock may become increasingly less so, reflecting stronger financial position and good longer term outlook. Moreover, reconversion problems are relatively small with contingency reserves of $1.50 adequate for this purpose. Book value is $76.72, almost twice current market price.

Sales of Minneapolis-Moline Power Implement Co. for the current fiscal year ending Oct. 31, will run considerably ahead of the $29.8 million reported last year but earnings, as in the case of most of the other companies, are not expected to keep pace with the higher volume owing to narrower margins and higher taxes. However, net per share should not vary much from the $1.34 realized last year. Past earnings were erratic and on the whole unimpressive and no dividends have been paid so far. This poor showing is largely due to the fact that the company's sales efforts are concentrated primarily in the grain growing areas, thus depended considerably on wheat farmers' prosperity with its well-known ups and downs. Leverage of a relatively substantial overhead on a fairly small capitalization was also a factor resulting in variations of as much as 100% in earnings on invested capital, on an average.

While not without speculative appeal, in view of general industry prospects, attraction of the common is limited because of the likelihood that eventual settlement of preferred stock arrears ($39 per share) will involve recapitalization and dilution of the equity. This doubt is reflected in the extremely low price-earnings ratio of 3.5 to 1, with the common currently priced around 4¾ against the year's high of 8⅜ and the 1937 peak of 16⅛.

Fundamentally, the company's position is fair with a secondary interest in the fabrication of structural steel and the manufacture of power units supplementing implement business consisting of a representative line of tractors and equipment. While the stock *may* promise relatively higher speculative profits, for a time, the risk factor naturally is more pronounced.

New Idea, Inc., is a small but budding newcomer, organized in 1920, and manufactures a line of implements and equipment consisting (*Please turn to page 260*)

Columbia Broadcasting

A "Growth" Stock Offering

More than 7% yield

BY OWEN ELY

"COLUMBIA" is a well-known name to millions of radio fans, through the polite emphasis on the name in the "pause for station identification." The company has been built up from small beginnings by its president, William S. Paley, to a leading position in what is now a national industry. With WABC as a key station, Columbia operates eight wholly-owned and one hundred and thirteen independent stations. The latter are under contract, with an increasing percentage of gross as time sales expand. Ninety per cent of Columbia's revenues is obtained from sale of "time" on the air. The Office of War Information now leases short-wave broadcast time. A subsidiary, Columbia Recording Corp., produces and sells records.

As with any other branch of the advertising industry, sales are affected by the trend of industrial activity. Revenues were in a declining trend in the early 1930's, but grew rapidly as the industrial recovery got under way. A minor recession in 1938 was followed by a wartime boom in the use of the air waves, nearly doubling the company's revenues. With little additional investment required to handle the increased volume of business, the company's earnings mounted sharply, but were levelled off by Federal taxes, which last year took more than half of the balance earned after other charges.

As indicated in the accompanying table (which is adjusted for stock dividends and split-ups) share earnings have now remained fairly steady between $2.00—$3.00 for eight years, 1943 income being estimated at $2.50. On the average, about two-thirds of net has been paid out in dividends in recent years. While the usual quarterly rate is only 30 cents, year-end payments of 60 cents last year and 90 cents this year brought the annual totals to $1.50 and $1.80 respectively.

	Millions of Dollars			Class A Common (1)		
Year Ended Dec. 31	Net Rev.	Income Taxes	Net Income	Earnings	Div. Paid	Approx. Price Range
1943	——	——	——	$2.50 Est.	$1.80	25-16
1942	44.7	4.35	4.12	2.40	1.50	17- 9
1941	42.4	3.80	4.80	2.93	2.00	22-11
1940	36.0	2.43	5.01	2.92	2.00	26-16
1939	30.4	1.13	5.00	2.93	1.50	25-14
1938	23.1	.77	3.54	2.07	1.25	23-14
1937	23.8	.90	4.30	2.52	1.95	32-17
1936	19.9	.74	3.76	2.21	1.65	30-23
1935	15.4	.42	2.81	1.65	1.30	24-12
1934	14.8†	.36	2.27	1.34	.92	11- 6
1933	10.6†	——*	.92	.55	.27	6- 5
1932	12.6†	——*	1.62	.97	.27	7- 5
1931	12.9†	——*	2.35	1.24	.20	——

* Not reported

(1) Adjusted for 15% stock dividend in June, 1931, 50% in December, 1934, 5 for 1 split-up in 1934 and 2 for 1 split-up in 1937.

† Time sales revenue.

The company is conservatively capitalized and has a strong current position. Funded debt amounts to only $786,300 and at last year-end the company had some $8,000,000 cash, and a current ratio of 3 to 1. Capital stock consists of 958,018 shares of Class A and 758,924 Class B, the only difference in the two issues being the voting rights (par value of both is $2.50 per share).

With its sound balance sheet, excellent growth record and prospects for further expansion, why does the stock sell under 10 times earnings, to yield nearly 8%? The reason probably lies in the increasing Government regulation of the industry, and its key position in national politics with the approach of the 1944 Presidential campaign. An FCC order has eliminated exclusive contracts with affiliated stations but this can probably be taken care of without serious disruption, though with some rise in costs. For the present, with the increasing pressure of pulp and newsprint shortage restricting newspaper and magazine advertising, time sales are expected to increase and full network contracts should also aid revenues.

The Supreme Court decision upholding the authority of the FCC over the industry has returned the issue to Congress, which has been holding lengthy hearings on the subject. Chairman James Lawrence Fly of the FCC recently told a Congressional committee "if you can't trust the commission you have got, abolish it, and get one you can trust—but don't break up the system." President Paley of Columbia, on the other hand, urged that authority to regulate and supervise broadcasters should not be given to the same agency which, through its licensing power, "already dominates the ultimate destiny of each station." Chairman Fly's retort: "What Paley wants for the broadcasters is the status of legalized outlaws. He told you that control of business practices meant program control. He is wrong. The whole business was dragged in by the tail in an effort to restore monopoly."

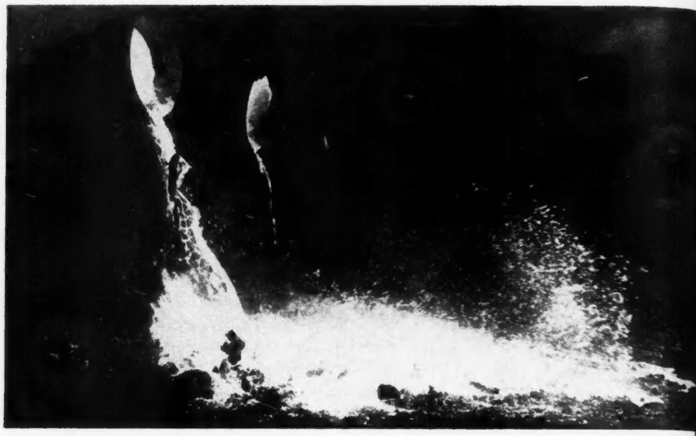
Which is the "red herring"? Is the Administration using the charge of "monopoly" to obtain greater control over news broadcasts and radio commentators, or is the industry raising a political issue in order to retain substantial control of a growing industry and eliminate potential competitors?

Mr. Fly maintains that he has never tried to dictate programs and has only required that broadcasters observe public rather than personal interests in the character of the service offered. Nevertheless, several episodes involving radio commentators, recently aired in the press, have raised suspicion that, directly or indirectly, the commission might attempt to (*Continued on page 265*)

Varying Positions of Steel Companies

Which Have Best Prospects?

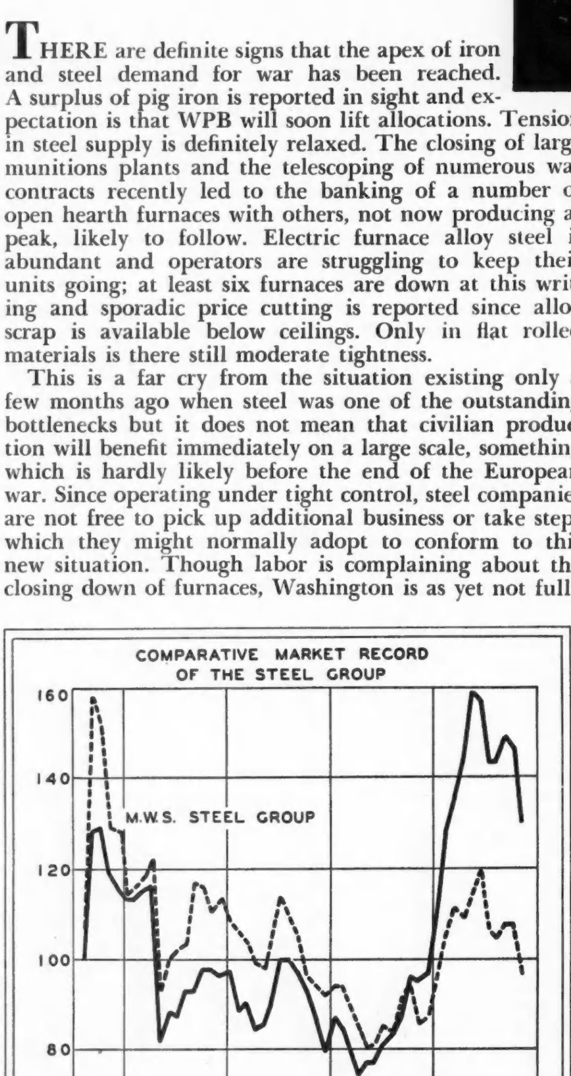
BY RICHARD COLSTON



Slag pots on a dump at a steel plant

THERE are definite signs that the apex of iron and steel demand for war has been reached. A surplus of pig iron is reported in sight and expectation is that WPB will soon lift allocations. Tension in steel supply is definitely relaxed. The closing of large munitions plants and the telescoping of numerous war contracts recently led to the banking of a number of open hearth furnaces with others, not now producing at peak, likely to follow. Electric furnace alloy steel is abundant and operators are struggling to keep their units going; at least six furnaces are down at this writing and sporadic price cutting is reported since alloy scrap is available below ceilings. Only in flat rolled materials is there still moderate tightness.

This is a far cry from the situation existing only a few months ago when steel was one of the outstanding bottlenecks but it does not mean that civilian production will benefit immediately on a large scale, something which is hardly likely before the end of the European war. Since operating under tight control, steel companies are not free to pick up additional business or take steps which they might normally adopt to conform to this new situation. Though labor is complaining about the closing down of furnaces, Washington is as yet not fully prepared, because of other complicating factors, to permit civilian goods production beyond the existing carefully limited programs. The result on the production front is an unbalance of the so-called "product mix," likely to be reflected in somewhat smaller earnings for a wide sector of the industry, possibly further accentuated by current wage demands.



Eventually, however, civilian allocations are bound to be raised. Allotments for the first quarter next year are only 160,000 tons with possibly an additional 50,000 tons from excess stocks. If the outlook continues good, the Office of Civilian Requirements is expected to request another 200,000 tons before the year ends.

With the military supply situation well in hand, the next big job will be the balancing of civilian needs, foreshadowing important shifts within the industry. With the end of the European war, these will become incisive. A break-down of September allocations shows that 23% of production went for miscellaneous uses and exports, which includes tank and ordnance steel, and lend-lease shipments. This percentage is bound to drop sharply once munitions programs are scaled down greatly. Shipbuilding took 19%; here, too, a substantial decline must be anticipated, centering on plate production. Distributors and jobbers received 12%; they stand to obtain far more with the expected widening of civilian output. Railroads received 8%, the construction industry 7%, the oil and gas industry 2.5%, and the farm equipment industry 1.5%. These percentages are likely to be upped appreciably, as will the allotments of the automotive and aircraft industries which together obtained 4% of September production.

Unless the war ends suddenly, first quarter operations are now expected to ease off to an average of between 90% to 96% of rated industry capacity against an October peak rate of 102.2%. Annual capacity is currently figured at 90.88 million tons of raw steel. No one can tell with accuracy how far contract cancellations will force down the production rate in the wake of termination of hostilities in Europe, but according to "expert guesses" it may well fall to about 70% with a lag of 2 to 3 months before it will again creep upward as the demand of reconverting industries and reconstruction will be felt. Even then, peak war rates are not likely to be

seen again but fairly high production is anticipated for a considerable span of time.

With the "break-even" point currently estimated above the pre-war figure of about 65%, due to substantially higher costs, the expected slackening of operations, even if temporary, will have repercussions earingswise though modified by the tax cushions. More satisfactory price-cost relationships for "peace" steel products is another mitigating factor so that on the whole, the net effects of impending shifts in the industry should not be adverse except for a brief transitional period. Reconversion problems are virtually nil in many cases, and elsewhere largely restricted to a change-back to sheet and light strip production on mills which were converted to heavy strip and plate output. Extensive furnace repair will be required, though, in view of expanded capacity, it will hardly affect operations. Rather, the industry in looking ahead will be concerned with fabricating problems since facilities are lagging behind the expanded raw steel capacity, with marketing problems and new post-war uses for steel to combat competitive materials. Cost factors, closely tied in with the latter, also rank high among future uncertainties.

Despite probably incisive shifts looming in 1944, the earnings outlook on the whole is reassuring. The tax adjustment factor alone should be important enough to absorb most or all of a temporary decline in operating income. Revised amortization and depreciation policy, now extremely liberal, should further sustain net. With deferred civilian demand vast and the export potential rated high, earnings should recover quickly as widened civilian production schedules get under way.

These should center on light steel production while heavy products may taper off with the exception of steel rails. Light steel makers, whose output is fitting best into the modern consumption pattern, are most favorably situated for the intermediate as well as longer term. Among them are Inland Steel, National Steel, Republic Steel, Acme Steel, Sharon Steel and American Rolling Mill. Heavy steel makers, facing a drop in military demand for plates and structurals, will find at least partial if not full compensation in mounting requirements of the railroad equipment and construction industries, and of the railroads where deferred demand for steel rails is large. Moreover, exports of structural steel and rails are expected to run into substantial figures. Thus operations of U. S. Steel and Bethlehem Steel should be well sustained, with the former having an edge over the latter due to greater diversification. Colorado Fuel & Iron, third largest maker of steel rails, can count on sizeable railroad orders while Youngstown Sheet & Tube, leading producer of tubular products as well as steel sheets, will benefit from the expected revival of oil well drilling, one of its most important outlets. Jones & Laughlin, fourth steel maker and well integrated, is in a position to take advantage of the revival of consumer durable goods industries as well as railroad, building, railroad equipment and oil and gas industry demands.

Crucible Steel, Allegheny-Ludlum, Carpenter Steel, Rustless Iron & Steel are makers of alloy and specialty steels but Republic Steel, having built up a tremendous electric furnace capacity during the war, is by far the most important factor in the field.

It will be the alloy makers, principally, who will carry the impending post-war battle against light metals and other competitive materials. They are wide awake to the challenge, possess greatly expanded facilities and have developed new and cheaper alloys of superior strength and quality. Hence they are confident that they will not lose important markets to lighter metals; while the fight may be difficult, they anticipate further growth in line with widening use of their products in aviation, transportation, construction, and in the food, household, chemical, textile and automotive industries.

In the case of Republic, alloy output accounted for nearly 40% of profits during the first nine months of this year. Other production is well diversified, principally in the light steel field, and post-war potentials are judged good as operations are completely integrated with ore and coal reserves adequate. While output will fluctuate with industry activity, plant improvements plus concentration on the higher-priced alloys are strengthening the company's competitive as well as earnings outlook, and post-war performance should be above average especially since the largest part of finishing capacity is for production of consumers goods. Amortization of emergency plant facilities appears to exceed the permitted 20% annual rate and tax reserves currently are exceedingly high, indicating statement of *(Continued on page 259)*

STATISTICAL POSITION OF STEEL COMPANIES

	Book Value per Share		Working Capital ($ millions)			Net Sales ($ millions)			Earnings per Share			Dividends per Share		Price Range 1943	Recent Price	Yield %	Price-Earnings Ratio	*Annua Capacity (1000 tons raw steel)
	1937	1942	1929	1937	1942	1929	1937	1942	1929	Avge. 1936-39	1942	Avge. 1936-39	1942					
Acme Steel	34.70	49.52	(c)	3.64	5.97	(c)	19.83	27.09	7.44	4.82	5.43	2.94	3.50	57⅛-41¼	52¼	7	9.6	800
Allegheny-Ludlum Steel	30.21	24.65	(c)	6.04	14.65	(c)	36.57	108.52	3.19	1.17	3.71	0.94	2.00	31½-18⅛	25⅝	8	7	463
Am. Rolling Mill	29.44	33.40	20.9	29.44	54.98	70.4	114.85	180.97	4.24	1.09	2.01	0.69	1.00	16⅜-10⅛	12¼	8	6	3,030
Bethlehem Steel	117.27	142.57	179.3	141.87	205.36	342.5	417.53	1511.6	11.01	3.70	6.32	2.00	6.00	69⅛-55⅞	56⅝	10.5	9	12,700
Carpenter Steel	20.00	26.67	(c)	3.72	5.63	(c)	7.95	24.75	1.99	4.02	4.75	1.22	2.50	31¼-25¼	29	8.6	6	55
Colorado Fuel & Iron	34.86	45.85	(c)	11.01	12.07	(c)	26.95	50.27	——	0.98	2.40	0.25	1.00	19⅜-13¾	14½	7	6	1,131
Continental Steel	45.96	61.81	(c)	5.21	6.52	(c)	19.72	22.86	4.01	3.40	4.06	1.60	2.00	27¾-18¾	24⅝	8	6	364
Crucible Steel	153.07	83.97	27.0	16.04	37.70	(c)	59.67	183.00	11.66	0.56	7.26	None	2.00	38 -30¼	28⅞	7	4	1,055
Inland Steel	58.75	72.74	32.0	42.27	55.89	(b)68.6	110.74	189.61	9.76	6.61	6.57	4.00	4.50	78¾-62	70½	6.4	10.7	3,350
Jones & Laughlin	167.19	88.78	78.5	42.34	78.06	126.7	117.47	234.98	13.67	D4.21	4.60	None	2.00	26⅞-19⅛	20⅛	10	4.5	5,927
National Steel Co.	56.35	73.14	21.0	34.16	45.19	(c)	145.93	219.85	5.41	5.69	5.42	2.08	3.00	64½-52	55⅛	5.4	10.2	4,300
Pittsburgh Steel Co.	59.70	40.72	(c)	11.11	15.92	(c)	35.35	70.99	14.96	D0.52	3.19	None	None	10¼- 4⅝	7⅜	None	2.3	1,072
Republic Steel Co.	34.74	40.58	(c)	76.47	110.42	(c)	250.44	517.89	——	0.63	2.67	None	1.25	20½-14	16⅝	7.4	6.2	8,500
Rustless Iron & Steel	2.30	7.66	(c)	1.07	4.63	(c)	4.19	32.11	——	(a)0.63	2.76	(a)0.08	0.75	18⅜-11⅝	13¼	5.7	4.7	100
Sharon Steel Co.	24.34	30.28	(c)	4.99	8.45	(c)	20.20	35.78	3.69	0.94	2.76	0.37	1.00	17⅜- 9	13⅞	7	5	636
Superior Steel Co.	37.10	31.95	(c)	0.17	0.90	(c)	8.18	17.29	0.65	1.27	8.64	None	None	32¼-14⅜	20¾	None	2.4	200
U.S. Pipe & Foundry	37.91	43.54	(c)	8.26	9.47	(c)	13.43	29.19	2.74	3.18	2.38	2.28	2.25	37⅛-29⅛	32	7	13.4	——
U.S. Steel Co.	151.09	139.96	440.8	363.40	523.27	1494.0	1395.5(b)	1861.9(b)	21.19	2.24	5.35	0.25	4.00	59⅜-47⅜	52⅛	8	9.7	29,720
Wheeling Steel Co.	69.82	90.68	38.5	33.36	43.63	84.7	90.45	118.98	10.53	3.16	4.61	None	1.50	24½-18	20½	7	4.4	1,960
Youngstown Sheet & Tube	75.22	90.84	74.8	57.20	95.84	161.0	144.28	217.85	17.28	3.86	5.66	0.81	2.50	41¼-30	35½	7	6.2	4,002

D—Deficit. (a) 1937-39. (b) gross sales and revenues.
(c) not available * Latest available figures, generally not including war-time expansion of capacities.

FOR PROFIT AND INCOME

War Stocks

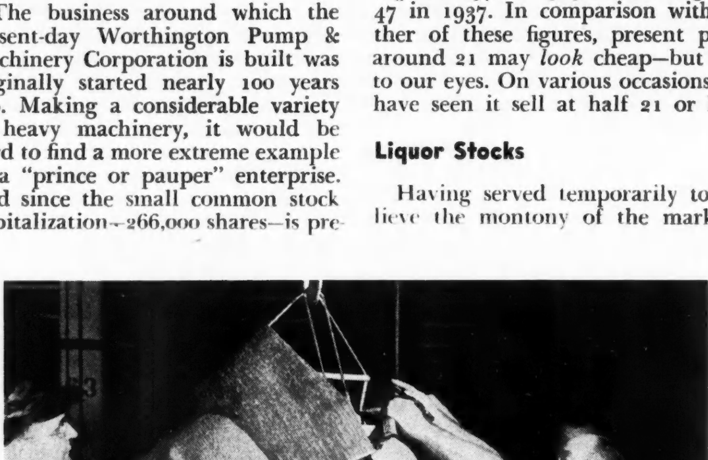
It may well be that so-called war stocks are reaching prices which reflect more emotional pessimism than sound reasoning—nevertheless the cold fact is that the whole group remains decidedly on the defensive. It is nothing less than a bear market in war stocks, and analysts who have tried to guess bottom just keep on getting their fingers burned. For our part, we were very bearish on such issues at much higher prices; we can not be eqully bearish now; but neither are we willing to turn bullish as long as the market action itself is so adverse. Though one may question the wisdom of the sellers, there is no percentage in arguing with a well-defined price trend. Pending the development of convincing technical evidence of really sold-out position in such stocks, we have held—and still do—that there is no need for haste on the buying side. Such evidence would consist of a protracted period of dullness in a narrow price range, followed by a zigzag upward pattern in the charts. The early picture is confused by transient year-end influences, since considerable tax-selling is now going on in war stocks. With the lifting of this pressure, the percentage upturn in the traditional year-end rally may conceivably be among the sharpest in the market, but it is too early for any conviction as to whether December will complete the major readjustment of war stock prices. Probably a more reliable clue would be provided by the action of the group in the event of further general unsettlement in the market during the fore part of the new year.

Patience Rewarded

The business around which the present-day Worthington Pump & Machinery Corporation is built was originally started nearly 100 years ago. Making a considerable variety of heavy machinery, it would be hard to find a more extreme example of a "prince or pauper" enterprise. And since the small common stock capitalization—266,000 shares—is preceded by a substantial capitalization in bonds and preferred shares, it would also be hard to find a more extreme example of "leverage" among industrial equities. Pre-war earnings of modern times ranged between a top of $3.79 per share on the common in 1937 and a deficit of $21.11 in 1932. In the period beginning with 1940, Worthington has had very large earning power—with net this year likely to exceed $12 a share and moderately above last year's results. With preferred dividend arrears finally liquidated, the management recently declared a $2 dividend on the common. This is most unusual, but not quite unique. Last previous dividends on the common were forthcoming in 1920-1921-1922. Illustrating the tenacity of human optimism, this stock—which, on the record, seems to pay dividends once in a generation—sold as high as 137 in 1929 and as high as 47 in 1937. In comparison with either of these figures, present price around 21 may *look* cheap—but not to our eyes. On various occasions we have seen it sell at half 21 or less.

Liquor Stocks

Having served temporarily to relieve the montony of the market's



One of the first photos approved by War Dep't for publication showing the new 2,200 horsepower engine for heavy, long range bombers

protracted readjustment to "peace prospects" the late spectacular "liquor boom" apparently has passed into history. It was not, of course, a general phenomenon, being confined to inventory-liquidation among a few secondary companies. These stocks reacted somewhat from their highs, partly on profit-taking and partly on legal uncertainties. Shares of the biggest liquor companies have been under moderate pressure recently, but most of them are considerably farther away from their 1943 lows than highs; and in this respect continue to date to "act" better than the market average. However, very low price-earnings ratios persistently attest to the dubious rating that most investors put on anything having to do with hard liquor. Schenley's recently issued report showed $6.64 a share for the fiscal year ended August 31, against $4.63 in the preceding year; the stock, around 35, being priced at about 5.2 times earnings. For the same fiscal period, Hiram Walker-Gooderham & Worts reported $12.03 a share earned, against $9.07 the year before—this stock, around 48, being priced at less than 4 times the former figure. It is interesting to note that Schenley had a bigger inventory on Aug. 31 than the year before: $73,782,000 against $63,361,000; while it was the reverse with Hiram Walker: $38,717,000 against $43,195,000. It would appear that inventories—worth their weight in scarce liquor and readily saleable as far ahead as anyone can see—have something to do with variations in price-earnings ratios.

THE PICTURE BEHIND THE AVERAGES

(Approximate percentage declines from year's highs to date in various groups, with decimals omitted.)

D-J Ind. Average	12%	100 High-price stocks	12%
273 stocks	19	100 Low-price stocks	26

Food Stores	6%	Gold Mining	18%
Dairy Products	7	Business Equip.	18
Liquors	7	D-J Rails	18
D-J Utilities	7	Sulphur Co's.	18
Paper	10	Sugars	19
Finance Co's	10	Baking	20
Food Brands	11	Building	20
Mail Order	11	Investment Trusts	20
Variety Stores	11	Meat Packing	20
Drugs	12	Steel & Iron	20
Machinery	12	Textiles	22
Chemicals	13	Amusements	23
Containers	13	Air Lines	24
Soft Drinks	15	Copper & Brass	25
Tobacco	16	Non-ferrous metals	26
Tires & Rubber	16	Auto accessories	26
Farm Equipts.	16	Automobiles	27
Bus Lines	16	Radio	27
Dept. Stores	17	Rail Equipments	27
Oils	17	Aircraft	37
Furniture	18	Shipbuilding	42

Low-Price Stocks

By early summer of this year the upside gap between our index of 100 low-price stocks and our index of 100 high-price stocks had attained the widest figure since the spring of 1937. Evidently, extreme speculative favor for low-price stocks can be taken as a warning signal, preliminary to substantial and general market decline. Unfortunately, it does not provide a by any means precise timing clue. In March, 1937, the widest gap in favor of the low-price index was over 25 points; the widest gap last summer was about 21 points. At no time during the five-year period 1938-1942 did the low-price index rise significantly above the high-price index and during by far the greater part of that long span there was a considerable gap in favor of the high-price index. At the market bottoms of 1938, 1940 and 1942—all outstanding buying opportunities—the low-price index was from 10 to 15 points *below* the high-price index. It is much to be doubted that in the current presumably *intermediate* market readjustment the average of low-price stocks will return even close to the extremely depressed 1938-1942 lows. However, the spread—though still in favor of the low-price index—has been persistently narrowing in recent months and for the latest week was less than 8 points. This merely means that speculative stocks are declining more than better-grade stocks, which is the usual thing in any period of broad market unsettlement. But until the spread begins to change in favor of low-price stocks—indicating renewal of speculative confidence—the odds will be against the bull side.

Air Lines

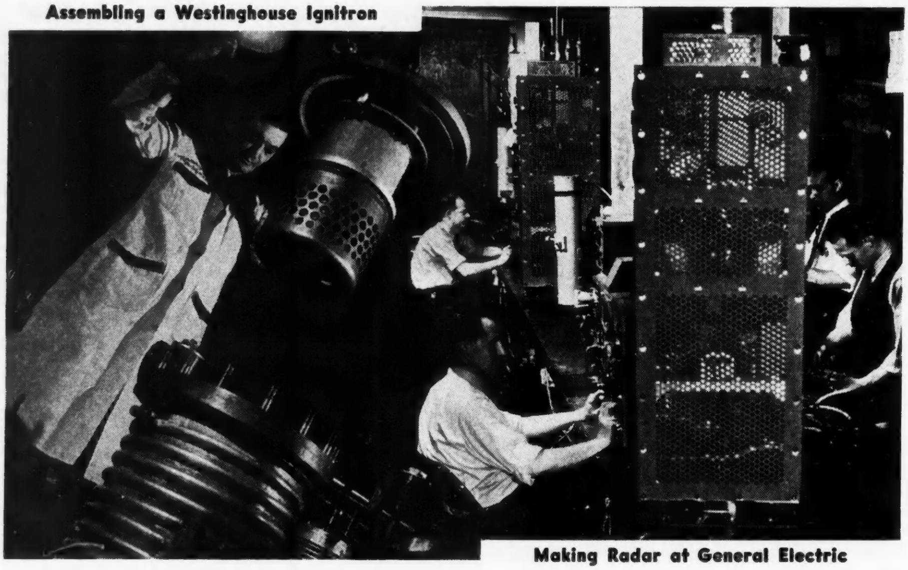
The air transport companies will certainly in time have much larger volume than now and may eventually earn more money than now. But there are some less favorable factors in the situation that are worth noting. First, it is probable that the profit margin—that is, ratio of profit to gross volume—reached an all-time high last year; reflecting extraordinarily high average load per plane flown and a temporarily favorable tax situation. For instance, American Airlines for the 9 months ended Sept. 30 showed pre-tax net of about $7,256,000, against only $4,254,000 for the similar period of 1942, but in the 1942 period the company was not subject to EPT, whereas it was so this year. As a result, total Federal taxes for the nine months came to $5,210,000, compared with $1,847,000 in the first nine months of 1942. Net per share dipped to $3.28 against $3.91. The post-war period will see intense competition, more "waste" in the sense of smaller average pay loads of passengers; and dividends will be restricted by the need for ploughing back much profits—and newly raised capital besides—into greatly expanded flying and terminal equipment and facilites. Having had a unique bull market of their own, rising last summer—unlike the Dow average—to a level far above the 1937 high, the air line stocks have now had a much more severe reaction than the general market. Being of the stuff that speculative dreams are made of, this column respectfully declines to make a guess whether they now are cheap. We know they are not bargains on a statistical basis, but that for some time has been beside the point.

Building Stocks

In the special article beginning on page 224, it is argued with considerable convincingness that the post-war boom in certain types of consumers' durable goods may not be as bullish—stock market-wise—as some people expect. The reasoning is that if companies convert early to civilian production and if backlogs of consumer needs are only equivalent to 18 months to 3 years of production, a major part of such back-

(*Please turn to page* 266)

Assembling a Westinghouse Ignitron



Making Radar at General Electric

General Electric *Versus* Westinghouse

By PHILLIP DOBBS

EXCEPT for a considerable difference in size, there is not much difference between the business of the General Electric Company and the Westinghouse Electric & Manufacturing Company. They have gone through the ups and downs of business, seven year cycles, depressions, booms and just ordinary years, in a similar way, but a close examination of details shows that the General Electric Co. has weathered the severe depressions better but that Westinghouse rode higher on the crest of the wave in the boom years.

To name all of the products of both of these companies would fill whole pages, for each of them is in a dozen or more separate industries. In the war effort, they are turning out many of their normal peace-time products for use of the armed forces, also a number of things which are only for war purposes, including munitions. Among the separate industries that both companies were engaged in before the war and will return to are electric refrigeration, electric and other oil and gas furnaces, radio sets, television sets, electronics devices, household electrical appliances (toasters, vacuum cleaners, etc.), air conditioning (both for homes and for whole buildings), some parts and electrical equipment used in the automobile and motor truck industries, and both have taken a place in the chemical and plastics fields. These activities are in addition to the electrical goods business which, in its narrower sense, embraces only the making of electric light bulbs, switches, motors and generators, transmission units, vibrators, regulating instruments and fuses. Thus each of them may be said to be an industrial empire. They each have a vast number of separate plants located in many cities and towns of the United States and in many foreign countries. Each had a large export business and each can look forward to some restoration in this field.

It is from the viewpoint of statistics, and not scope of business that the relative merits of the common stocks of both companies must be judged. The gross business of General Electric in 1942, and also in 1943, is more than double that of Westinghouse Electric. In 1942, General Electric had a gross of $1,047,134,843 in net billings, but later made a voluntary contract price adjustment to the Government of $69,360,217 (equal to nearly $2.50 a share on the capital stock), making actual billings of $977,774,626. Of the final billings, not quite $239,000,000 was retained as net income before taxes, a gross profit of approximately 25%. The Westinghouse net billings in 1942 were $487,274,551, with a gross profit of just under $72,000,000, or about 15% gross profit before taxes. Thus on the ratio of costs to gross, the advantage was distinctly in favor of General Electric. The total taxes of General Electric were just below $22,000,000 for income payments and $172,000,000 excess profits tax, with a postwar refund of $17,000,000 (about 51 cents a share), which was written-off in contingency and other reserves. The Westinghouse tax bill was just over $54,000,000 ($9,657,457 for income tax and $44,382,591 excess profits tax). The postwar refund of a little over $4,400,000 was more than written-off, with the contingent reserve at nearly $4,950,000 (equal to about $1.60 a share on the common stock).

Without allowing for the contingent reserve write-offs, although actually they should be considered as deductions from surplus and not from income, the final net figures of 1942 income were $1.56 a share for General Electric and $5.47 for Westinghouse. So far in 1943, both companies have been running ahead of last year, with the indicated final figure estimated at near $1.60 a share on General Electric and about $6.00 on Westinghouse. It can be seen that the latter has been improving its position more than has General Electric under the more difficult conditions this year than last. Both companies are expected to show a very large increase in their total volume of orders filled and in costs and taxes than in 1942,

when the final figures for 1943 are available.

In studying the relative showings of both companies in past years, there have been two periods set up in the table. One of them covers the four war years, 1939 to 1942 inclusive. Even before the outbreak of war in Europe on September 1, 1939, there had been some business booked which was for use by European armed forces and not long after that date, the United States started in a small way to increase its business for our armed forces, although this did not get to large proportions until after December 7, 1941. In general, however, the war started to stimulate industry in this country from the Munich "peace in our times" agreement in the Autumn of 1938 and therefore these four years plus 1943 (and later years if the war lasts) will be grouped in the future just as 1914-1918 are now grouped. In the 1939-1942 period, both of these companies showed a material improvement in earnings over the preceding grouping of years. The General Electric net per share of $1.43, $1.95, $1.99 and $1.56 made an average of $1.73 a share, which compared with the $5.24, $7.22, $7.30 and $5.47 and average of $6.31 for Westinghouse in 1939 through 1942. In the four war years, General Electric showed an improvement in average earnings of 51.7% over the 1930-1938 average, while Westinghouse had a 228.6% improvement in the later four year average than in the previous one. Hence, the recovery was distinctly in favor of Westinghouse, just as the improvement in 1943 over 1942 of 27.3% for the smaller company and 2.08% for General Electric was also clearly in favor of Westinghouse. This illustrates that in periods of expansion, the rise in Westinghouse net income per share is much faster than that of General Electric.

Depression—Resistance of GE

It is in the years when depressions exist or business is below normal that the inherent strength of General Electric brings it to the fore. The depression of the early 1930s did not show up in the electrical goods business as quickly as in some others, and the 1930 income of both companies was not radically lower than in 1929. Thus General Electric (on a basis of the new stock after the 4 for 1 split-up of January, 1930) had net income of $2.00 in 1930 against $2.35 in 1929 and Westinghouse in 1930 showed $4.49 a share against $10.36 in 1929. In the next few years, the decline in Westinghouse was severe, with deficits of $1.52 a share in 1931, $3.55 in 1932, $3.45 in 1933 and $0.03 in 1934. In these four years, General Electric had net income in each year, with the per share figures 1931-1934 at $1.33, $0.41, $0.38 and $0.59. Considering the vast decline in earnings of many businesses in that period, the General Electric showing can be considered remarkable. In depressions, it very decidedly was ahead of Westinghouse.

The 1935 income of General Electric did not jump sharply, being 97 cents a share, while Westinghouse went from a 1934 deficit of 3 cents a share to net income of $4.53 a share, showing its great recuperative power. It was in the quite prosperous 1936 and 1937 that both companies showed a sharp gain in income, with $1.52 and $2.21 a share reported for General Electric and $5.74 and $7.66 for Westinghouse for 1936 and 1937 respectively. But Westinghouse "had the edge" as showing a greatly improved position over the depression years while General Electric had a merely "good" recovery. In 1938, Westinghouse did not slump as sharply in that year of poor business conditions, merely declining to $3.38 a share while General Electric dropped to 96 cents a share, which was below its nine year average. In the nine years 1930-1938 inclusive, General Electric had averaged $1.14 a share annually and Westinghouse $1.92.

A final earnings comparison shows that General Electric in the four years 1939-1942 had averaged 73.6% of its 1929 net per share, while Westinghouse had averaged 60.9%.

In dividends, General Electric has been more liberal through the years, in proportion to earnings and in increasing its payments during the years of larger income. Both companies succeeded to businesses which had been started in the 1870s, with the present Westinghouse incorporation in 1886 and General Electric in 1892. The first dividend was paid on General Electric in 1892 and after some lapses in the next few years, was resumed in 1899 and continued in every succeeding year. Westinghouse started dividends in 1900. Payments were made in nearly all years until 1933, with nothing that year or in 1934, but with payments since 1935 in each year.

The long, unbroken record of General Electric has given it a decided advantage in investment circles over the other stock. The actual payments, also, have been ones to attract the attention of investors, not in hopes that such a record may be repeated, but because it has been so impressive in the past on General Electric. Thus from under 1,000,000 shares of stock, the outstanding capital shares have increased to nearly 30,000,000, in part through numerous subscription rights in past years, but more from stock dividends. From 1918 through 1925, General Electric paid 4% or 5% in stock each year, besides cash. In preceding years, there had been stock dividends of 66⅔% and 30%. Other distributions had been the stock of the Electric Bond & Share Co., the "special" stock of General Electric, which has since been retired, and stock of the Radio Corporation of America. In 1926, four shares of no par value were given for each former $100 par shares and in January, 1930, the no par stock was again split four for one. Thus the shareholder as of early in 1926 with one share had sixteen by the end of four years. This is all "water over the dam," but it has made General Electric a favorite in investment circles and in markets for many years. The Westinghouse distributions have been a number of subscription rights, a 10% stock dividend in 1924 and the distribution of the company's holdings of Radio Corporation shares.

Cash Dividend Record

It is in cash dividends that a still better picture develops in favor of General Electric for some periods. Thus in the 1930 to 1938 average, it was at $1.16 while that of Westinghouse was $2.31, but the relatively poorer showing of the latter was due to the cessation of payments in 1933 and 1934, while only 87½ cents was paid in 1932 and only $1.00 in 1935. Also, both companies paid out a little more than they earned on the average for the nine years. With the restoration of better earnings in 1936, Westinghouse increased its dividend to $5.50 for that year and to $6.00 in 1937, whereas General Electric paid $1.70 in 1936 and $2.20 in 1937. Both had made comparatively moderate payments in 1929, with $6.00 on the old General Electric, equal to $1.50 on the present stock, and $4.00 on Westinghouse, but both were more liberal in 1930, the first year of the depression, with the equivalent of $1.57½ on General Electric and a $5.00 dividend on Westinghouse. In 1931, General Electric increased its payment to $1.60 but the other dropped its disbursement to $3.87½ that year. The 1932 to 1935 payments on GE were 85c, 40c, 55c and 65c, with those

of the smaller company at 87½c, nothing, nothing and $1.00 for these four years. In the 1938 depression, GE paid 90 cents and Westinghouse $2.50. In the years of business decline, the General Electric record was better.

The cash payments in the four years 1939-1942 were $1.40 each for all but 1940, when $1.85 was paid on General Electric, for an average of $1.51. The Westinghouse dividends for the period were $3.50, $4.75, $5.00 and $4.00. The larger company paid an average of 90% of its average earnings during these four years and Westinghouse an average ($4.31 annually) of 68% of its average annual income. Hence, the General Electric directors had been more liberal with their shareholders in this four year period.

In the realm of market prices, both common stocks have been through some drastic changes. In the 1929 boom, the old stock of General Electric went to a high of 101 in terms of the present stock, dropping to a low that year equal to 42. The depression low, in 1932, was 8½, a decline of 92% from the bull market top. In the same period, Westinghouse went from a 1929 high of 292⅝ to a low of 100 late that year and a 1932 depression low of 15⅝, a decline of 95%. The subsequent recovery to the 1937 high on GE was to 64⅞ and that price was almost 65% of the 1929 high. The Westinghouse recovery to 167⅝ was less in proportion, being to only 57% of the 1929 high. The keen investment demand for General Electric which developed in the 1930s kept the stock relatively higher than the other through many years. In the 1938 depression, it declined to 27¼, while Westinghouse had about the same proportionate decline in going to a low of 61¾ that year, but Westinghouse had a far better rebound to the 1939 high of 121 against the General Electric recovery to 44⅝. Neither stock has been able to approach closely to the 1939 high in 1943. Considering the entire price movement angle for the past fifteen years, the comparison seems to be about even.

Investment Ratios

On the yield at recent prices and 1943 dividends, Westinghouse is in a better position, with 4.4% against 4.0% for General Electric. The same stock is in a much better position on the ratio of current earnings divided into price per share, with the Westinghouse price only 15.2 times the per share figure and General Electric at 23.3 times.

The asset position in relation to market price of Westinghouse is far better. Thus on the last complete balance sheet report, as of the end of 1942, the net current assets of $6.09 per share on General Electric are 1 to 5.7 of market price. The net current assets per share of Westinghouse Electric are $52.87 per share, or more than half of the recent market price (1.7 to 1). On book values in relation to market price, Westinghouse is also far ahead with the market price only 1.2 times book value of $76.60 per share while General Electric price is 3.1 times the $11.30 per share book value.

The securities position of Westinghouse is superior to General Electric, even though there are some bonds and preferred stock, while GE has only one class of security. The bond issue of Westinghouse is a very small issue in such a large company, consisting of $20,000,000 2⅛% debentures due in 1951. The preferred stock of this company has a par value of less than $4,000,000. The preferred is entitled to $3.50 annual cumulative dividends before the common receives anything, but it participates equally with the common in all further dividends after $3.50 is paid on the common in any year. The preferred is non-redeemable. After it come 3,126,581 shares of common of $50 par value. This is far from being an unwieldy-sized issue, but the 28,810,720 shares of no par value General Electric common outstanding could be hard to handle in some types of market. It is true that huge amounts of it are in many investment trust portfolios and held by thousands of individual investors, but if any real reason for public liquidation of it occurs, it might be found to be a huge burden for the market to hold. Thus in the 1932 market, with net earnings still being reported and dividends being paid, it went under 10 from the sheer weight of the offerings.

A summary of all of the points covered in this study leads to the conclusion that Westinghouse as a whole has superior investment qualities (book value, current assets, yield, recent earnings, etc.) and (*Continued on page 264*)

COMPARATIVE STATISTICS.

	General Electric	Westinghouse
Net Sales Billed—1942	$1,047,134,843	$487,274,551
EARNINGS PER SHARE ON COMMON		
Nine months to Sept. 30, 1943	$1.09	$4.52
Nine months to Sept. 30, 1942	$1.06	$3.55
Increase 1943 period over 1942	2.08%	27.3%
1939-1942 average	$1.73	$6.31
1930-1938 average	$1.14	$1.92
Increase 1939-1942 period over 1930-1938	51.7%	228.6%
1929 net per share	$2.35*	$10.36
Ratio 1939-1942 average to 1929 net	73.6%	60.9%
DIVIDENDS PER SHARE		
1943	$1.40	$4.00
average 1939-1942 incl.	$1.51	$4.31
average 1930-1938 incl.	$1.16	$2.31
1929	$1.50*	$4.00
First dividends paid in year	1892	1900
Continuous payments through 1943 since	1899	1935
PRICES.		
1943 range	39⅞-30¾	100 - 81
1939-1942 incl. range	41 -24¾	121 - 63⅛
1930-1938 incl. range	95⅜- 8½	167⅝- 15⅝
1929 range	101 -42*	292⅝-100
RECENT PRICE	35	91
Yield on recent price	4.0%	4.4%
Ratio recent price to estimated 1943 earnings	23.3 to 1	15.2 to 1
ASSETS		
Net current assets per share Dec. 31, 1942	$6.08	$52.87
Ratio recent price to net current assets	5.7 to 1	1.7 to 1
Book value per share Dec. 31, 1942	$11.30	$76.60
Ratio recent price to book value	3.1 to 1	1.2 to 1
OUTSTANDING SECURITIES		
Bonds	None	$20,000,000
Preferred stock, number of shares	None	79,974 ($50 par)
Common stock, number of shares	28,810,720 (no par)	3,126,581 ($50 par)

* On basis of present stock, allowing for the 4 for 1 split-up in January, 1930.

Answers to Inquiries

he Personal Service Department of THE MAGAZINE OF WALL STREET *will* swer by mail or telegram, a reasonable number of inquiries on any listed curities in which you may be interested or on the standing and reliability f your broker. This service in conjunction with your subscription should present thousands of dollars in value to you. It is subject only to the llowing conditions:

Give all necessary facts, but be brief.
Confine your requests to *three listed securities.*
No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

pecial rates upon request for those requiring additional service.

Owens Illinois Glass

As a subscriber to your magazine, would be glad if you would advise e your opinion of Owens Illinois lass.

I notice this is much below its igh for the year. Is this due to any rious defect in the stock, if not, it uld appear that it would be a buy the present lower price.—H. E. S., ront Royal, Va.

Owens Illinois Glass Company is e largest manufacturer of glass ntainers in the United States. bout 50 per cent of the bottled out- t is taken by the food, medicinal d proprietary drug trade, but the ug, liquor, soft drink and beer dustries also are important. The mpany's net plant account has ore than doubled since 1929 and pital needs have been financed t of earnings and through recourse the securities market but the nancial position remains strong. It rned $3.46 per share in 1942 as mpared with $3.40 in 1941. Earn- gs for the 12 months ending Sep- mber 30, 1943, showed a slight im- rovement, amounting to $3.54 as mpared with $3.17 for the same eriod of 1942. This company has id dividends continuously for 36 ears and at present low price we nsider it worthy of inclusion in ur portfolio. The high of this year was 64 and the low was 54½. Earnings for this year are estimated at approximately $3.50 per share, including a post-war credit of 65 cents. The current dividend of 50 cents quarterly should be maintained. The company's equity has attraction because of the company's strong basic position and its promising long term outlook.

N. Y., Lackawanna & Western Co. 5% Gtd.

Will you be kind enough to give me a report on and an analysis of New York, Lackawanna & Western Company 5 per cent guaranteed stock.

We hold some of this stock bought a higher than present price, and would be glad to have your advice whether to sell at a loss, hold or purchase additional stock.—R. F. P., Fort White, Fla.

The New York, Lackawanna & Western Stock to which you refer in your letter presents the opportunity for speculative action where one can afford the risk involved.

On June 10, 1943, the Board of Managers of the Delaware, Lackawanna & Western Railroad authorized negotiations looking toward a possible merger of New York, Lackawanna & Western and Delaware, Lackawanna & Western, whereby holders of New York, Lackawanna & Western stock would receive an amount equal to 60 per cent of their present holdings in new 5 per cent New York, Lackawanna & Western first refunding mortgage bonds maturing in 1973 and 40 per cent in second mortgage contingent interest bonds maturing in 50 years with sinking fund payments under certain conditions based on earnings. It would in effect call for both roads to share the tax burden equally.

Opposition has developed from the present bondholders who insist it would dilute the security of their holding. Stockholder acceptance, too, may be difficult to obtain since the inducements offered do not equal the terms of the original lease. When the demands of the stockholders are advanced by their protective committee and attempt at finding a common meeting ground develops, it should be possible to more accurately appraise a fair value for New York, Lackawanna & Western shares. In the meantime, speculative appeal exists in the possibility that settlement will come on more favorable terms than those proposed in June and which might be termed the company plan.

New York Central 4½'s of 2013

I own 10 one thousand bonds of New York Central Railway 4½% of 2013 that I have paid $57 for. It is now down to $54. Would you kindly give me your opinion if this would be a good investment.—J. H. L., Lewistown, Montana.

The New York Central Railroad & Hudson River refunding improvement 4½'s of 2013 carry an investment rating of B. This railroad has been enjoying considerable improvement in earnings and earned its interest charges 2.01 times in 1942 as compared with 1.54 times in 1941. In the first 8 months of 1943, said charges were 2.41 times as compared with 1.85 times for the same period of 1942. This issue is listed on the

New York Stock Exchange and has had a price range this year of: high 61; low 47⅝; last 54. According to the latest information available, this particular bond is legal for savings banks in the States of New York, California and Maine. The company has paid all floating debts and no important maturities occur until 1952. The company recently declared a dividend of $1.00 on its common stock. While substantial sums must continue to be devoted to reduction of company's debts and fixed charges if the latter are to be brought into line with indicated earning power in the post-war period, we see no reason for you to liquidate this bond at this level. In our opinion, before the year-end reinvestment period is over with this bond should command a better market price than 54. While it cannot be considered a high-grade bond and is in the speculative class, it does appear to have appeal at the current level.

Public Service of New Jersey 6% preferred

Will you please advise me how you would regard as a possible investment, purchase of a small number of shares, say from ten to twenty shares, of Public Service of New Jersey, 6%, preferred stock. There has recently appeared in the public press items to the effect that a governmental agency is endeavoring to have the company write-down its surplus by a very large sum, the apparent object being to force the company to reduce its charges. Stock is now selling about 94.—S. W., Passaic, N. J.

You raise a rather interesting question in your letter wherein you suggest the desirability of a possible investment in the 6% preferred shares of Public Service Corporation of New Jersey. At 94 it would seem desirable both as to income and appreciation possibilities. Public Service of New Jersey is essentially a holding company owning stocks of subsidiaries which in turn, furnish electric, gas and transportation service and in 1942 was held by the Supreme Court to be subject to the provisions of the Holding Company Act of 1935.

The press notices you mention apparently refer to Public Service Electric and Gas, a major holding of the Public Service Corporation and has to do with accounting and valuation practices. On November 8th, T. N. McCarter, Chairman of the company, said the company would make efforts to contest the claims of the Federal Power Commission and New Jersey State Utility Commission that book values were excessive and should be reduced. He further maintained that values on the books represent actual cost and that the value of the properties is in excess of book costs, also that property values substantially exceed book costs in the case of electric properties.

Mr. McCarter further stated that the company is preparing to set up a capital surplus fund in a substantial amount, against which a charge can be made if hereafter determined, in order that the business may proceed normally without interruption of dividends. It was further stated this fund would provide a means of contesting each and every item that may be ordered written off.

We may therefore infer that officials of the corporation will take all reasonable action to protect the interests of holders of the Public Service Corporation stocks, should adverse interests develop under the Holding Company Act, so that current price of 92, a reasonable purchase of the 6% preferred shares should provide beneficial results.

American Crystal Sugar

I have 20 shares American Crystal Sugar bought long ago at 22½. Would you advise switching to another stock where I would likely have a better chance to get my loss back.—W. H. S., Los Angeles, Calif.

American Crystal Sugar Company is a leading beet sugar producer, owning ten factories, eight of which are active and are located in California, Colorado, Iowa, Nebraska, Minnesota and Montana, with a slicing capacity of 15,000 tons of beets a day. Land holdings total over 33,000 acres, of which the company farms about 5,000 and rents over 15,000 acres. About 95 per cent of the beets processed are purchased from other growers on a participating basis. Sugar production of this company in 1942-43 totaled 3,883,785 100 lb. bags compared with 3,252,587 bags in the previous year.

The company showed a sharp decrease in cash at the 1942-43 year-end reflecting the expansion in inventory. The company, however, had a strong financial position, its net current assets amounting t $9,978,000 which was the large on record. The ratio of curre assets to current liabilities was 3 to 1. Bank loans of $1,750,000 nee ed for the 1942-43 season were duced to $500,000 on May 11, 194

Earnings for the fiscal year en ing March 31, 1943, amounted t $1.94 a share as compared wit $2.98 in preceding year. In the pr war years of 1936 to 1939, inclusiv the highest this company earn was $3.91 per share and the lowe was 19 cents per share. The pric range of common stock this year h been: high 18⅜; low 14; last aroun 15. Thus far in 1943, the compan has paid three quarterly dividend of 25 cents each. If only $1.00 pe share is paid in 1943, based on one dollar dividend rate and th current market price, the indicate income yield is 6.67 per cent. I 1942, the company paid $2.50. Sel ing on a favorable price to earning ratio of 7.7 and a yield of 6.7 pe cent, we see no reason to distur this stock at current market pri Present indications are that earning this year will range approximatel the same as last year and the curren 25 cents quarterly dividend rat should be continued. A 39 per cen cut in beet acreage for this fisca year because of labor shortages i dicates a reduction in refining ope ations. However, a large export busi ness and favorable prices are e pected in the post-war period.

Firestone 6% preferred

When will Firestone Preferre 6% stock be replaced by the 4%? F. L. M., Portland, Orego

Common stockholders of Fire stone Tire & Rubber Company ar to vote December 15th on authori ing a new issue of $60,000,000 o preferred stock which is to have dividend rate not in excess of 4½ per cent. The bulk of this stock i to be sold to the public with pro ceeds ear-marked for redemptio of $45,600,000 outstanding 6 pe cent preferred stock.

At the same time, that is Decem ber 15th, stockholders will be aske to approve a change in the par valu of the 1,945,989 shares of commo stock from $10 to $25 a share. Thi will be effected through capitaliza tion of about $30,000,000 of the com pany's consolidated surplus, whic currently amounts to more tha $64,000,000.

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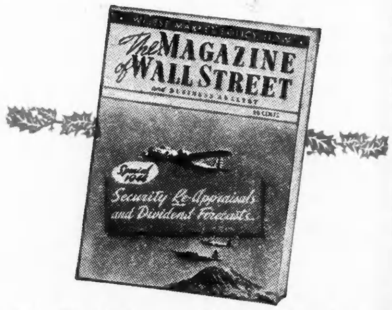

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Speculative Opportunities Enhanced By Market Reaction

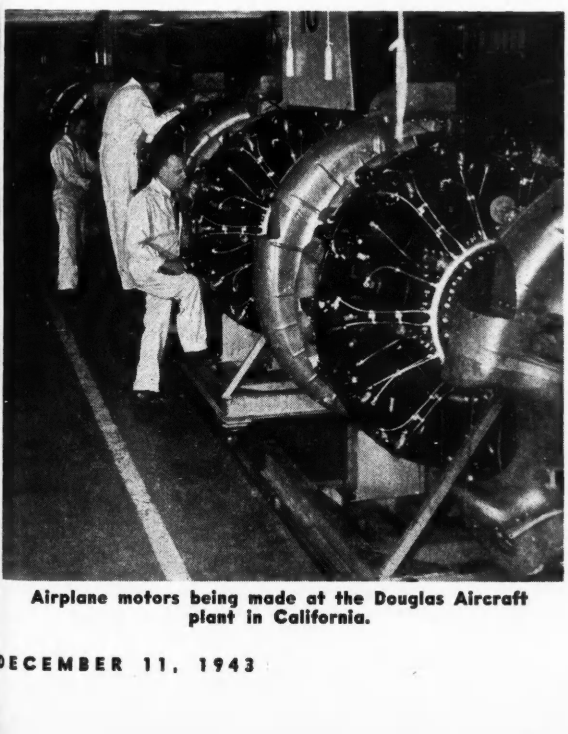
BY THE MAGAZINE OF WALL STREET STAFF

WHILE the Dow-Jones industrial average is only about 10 or 11 per cent below the year's high level, many stocks can be purchased at discounts of 20-40 per cent from the 1943 high marks. The accompanying table presents a list of 20 such issues, a few of which may be classed as "war" stocks. The latter have been included because they appear to reflect sound values as judged by their pre-war records, but they may not yet be "on bottom" and timing of any purchases in this list should await buying advice in the A. T. Miller market analysis.

The list furnishes a choice of yields ranging from 4 to 11% and price-earnings ratios from 2 to 20.

Since stock prices largely reflect the market's effort to discount the future in terms of past and present trends, a stock like General Electric continues to sell at a very high ratio to earnings while a rail like Great Northern, with its high temporary earning power, may be considered too high even at twice the current earnings. In order to judge which is the cheaper stock, a careful study of earnings, dividends and prices over a period of years is necessary, together with an estimated projection of earnings into the post-war period. We comment briefly as follows on selected issues:

Glidden Co. is in a fortunate position because of its large production of vegetable oil products including linseed, cocoanut, cotton seed and soy bean oils, together with margarine, mayonnaise, salad dressing, spices, etc. In the past food products have constituted about half of sales, but with the company's paint business handicapped by lack of materials, vegetable oils, margarine, etc. will probably assume greater importance. Chemical products include lithopone, white and red lead, titanium dioxide, etc. The company has an exclusive process for producing iron powder, formerly largely imported, and it is also interested in rubber substitutes. As an important factor in the paint industry, the company operates 24 retail stores. Due to capital leverage and adverse conditions in paints and chemicals, earnings have been irregular. Selling about 20% under the year's high, the stock should have appreciation possibilities due to its current strategic position in butter-substitutes, etc., and the post-war outlook should be favored by continued demand for paints and greater availability of raw materials.



Airplane motors being made at the Douglas Aircraft plant in California.

Paramount Pictures, 26% below its high, appears reasonably priced at 5.4 times estimated current earnings. While there may be some let-down in post-war earnings due to reduced employment, this may be partially offset by the greater leisure of present war workers to attend theatres. Re-opening of foreign fields and the development of television, as well as lower taxes (federal taxes last year were 16 times as large as in 1940) should also improve the post-war outlook. As the result of the 1934 reorganization and the plowing back of earnings in recent years, the financial position has been greatly improved; last year the company reported over $26,000,000 in cash items compared with $10,000,000 in 1937.

Among the lower priced issues Celotex, 28% below the year's high, may have possibilities. The company is a leading maker of insulating materials and wallboard from bagasse (obtained from sugar cane). While earnings have been sharply stimulated by war construction work, there will be a huge deferred civilian demand after the war which should help sustain sales. The capital set-up was improved by the 1935 reorganization and net working capital is now the largest in over a decade. Due to the conservative dividend policy, the book value of the common stock has been built up from $2.41 in 1936 to $8.96 in March, 1943. The company is planning to develop its Mexican and South American markets. It has a 24% equity interest in Certain-teed Products, also in the building industry.

American Seating, selling fairly near the year's low, should have an excellent post-war backlog of demand for seating equipment for schools, theatres, churches and public buildings. The capitalization is conservative and the current ratio of 5.4 to 1 as of June 30th this year indicated the company's strong financial position. The stock has a book value of over twice its current market price. While it obviously lacks dynamic appeal, its investment quality and attractive yield, combined with the current market position, give it attraction.

Pennsylvania Railroad is selling around the year's low level and at only half of the 1937 high, when earnings were about one-third of the present figure. The road's accounting has always been of extremely conservative

character, permitting it to report earnings in years like 1932 and 1938 when many other railroads were "in the red". This is largely due to the stability of "other income" which usually exceeds half the fixed charges. One of its best investments is 44.7% of the stock of Norfolk & Western, highly profitable coal carrier. There are also substantial holdings of leased line securities, and a considerable backlog of cash assets is tucked away in the wholly-owned Pennsylvania Co. In 1942, the excess of current liabilities over current assets reflected the setting up of a $108,000,000 contingency and tax reserve. Cash on hand is considered sufficient to take care of near-term bond maturities. The company has probably the best dividend record among American corporations, having paid continuously for 95 years. With a current yield of over 10%, this stock would seem entitled to a better investment rating than is reflected in the present price level.

Great Northern is also selling near its year's low and about 30% under the year's high. With earnings for the current year estimated around $10, the excess over the $2 dividend will doubtless be devoted to debt retirement; fixed charges have already been reduced 35% since 1934, including $18,000,000 Series G bonds retired in 1943. Current large earnings are, of course, due largely to heavy transportation of iron ore from the Mesabi range in Minnesota, but loss of this excess business in the post-war period should probably not endanger the present moderate dividend rate. Grain movement for export may show an improvement after the war, and lumber shipments should be sustained by activity in the building industry.

The oil stocks have made a disappointing showing in recent months and Pure Oil, which sells at a conservative ratio to earnings, is about 22% under the year's high (though it remains substantially above the low). The outlook for the oils seems largely dependent on the effort to obtain an increase of 35 cents a barrel in crude oil prices, a move which appears to be favored by Secretary Ickes as Fuel Oil Administrator but which is frowned on by OPA as inflationary. Recently there have been reports that Congress might consider giving Mr. Ickes entire control, which, if consummated, would doubtless tend to revive interest in the group.

Pure Oil, which formerly had an irregular earnings record, increased its share earnings substantially in 1941-2 as compared with earlier years, largely due to the development of oil in Illinois. While production in that state is now declining, the Cumberland pool in Oklahoma and new discoveries in Texas and Louisiana should help to maintain production at favorable levels. The company along with others will benefit by improved transportation conditions, including the development of new pipelines, construction of barges, etc. Operations are well diversified in production, refining and distribution, products being marketed in 27 states through 12,327 retail outlets, largely in the middle west and south. Common dividends have been held to a conservative basis, which has built up book value about one-third since 1937. Due to the large amounts of preferred stock outstanding, in addition to a moderate funded debt, the stock possesses some leverage.

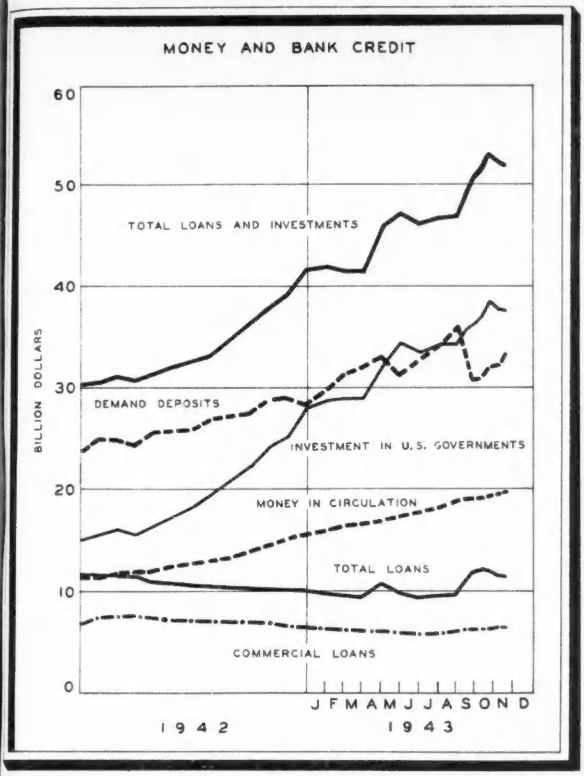
Douglas Aircraft is of interest because of the recent eulogistic stories describing Donald Douglas' career, from his beginnings in a small shop to the present "billion-dollar" status. Like other aviation manufacturing stocks, the issue is practically at the year's low, nearly 40% under the high, and is selling at about 3 times estimated current earnings. The interesting point is that even in the pre-war period, with relatively small earnings and no dividends, the stock sold at substantially higher levels; the present price has been exceeded in every year subsequent to 1934. While a large part of the present huge backlog and sales may be lost in the post-war period, the company's record as a developer of new aircraft types should maintain its leading position in the post-war industry. While present market interest in the group seems geared to the war, and news of peace overtures might force the stock temporarily to lower levels, it might on the other hand respond to any indications of a longer-than-anticipated duration of the war. Regardless of these interim fluctuations, its pre-war record and strong financial position would seem to entitle it to a price recovery eventually.

Mack Truck is currently around 31 compared with the year's range of 37¼-28. The stock has paid dividends for 21 years, and with no funded debt and satisfactory working capital position, it possesses investment calibre, despite the irregularity of earnings and price. Book value at the end of last year was over $73 a share. As the leading producer of trucks and an important maker of busses and fire-fighting equipment, the company should be in position to maintain a normal sales volume in the post-war period despite loss of war business.

Collins & Aikman, a leading maker of upholstery fabrics for the automobile industry, became a notable "war casualty" since it could not convert readily or profitably to war work. Suspension of automobile production together with expenses incidental to change-over of facilities to a basis capable of turning out war-needed materials resulted in a sharp contraction of earnings which in 1941 fell to $1.07 per share against $5.15 in 1940. Last year, a deficit of 13c was reported. Meanwhile the company has turned the corner and earnings have improved measurably with a 1943 net of about $2.25 indicated, a marked improvement. The stock's main attraction,

(*Please turn to page 262*)

	Price about	Range	Indic. Div. Rate	Yield about	Est. 1943 Earnings	Est. Price Earn. Ratio
Warner Bros.	10½	15¾- 7⅜	——	——	2.20	4.8
American Seating	14	18 -12¾	1.00	7.2%	2.00	7.0
McCrory Stores	15	17¾-11½	1.00	6.7	2.20	6.8
Byron Jackson	19	25⅛-16	1.25	6.7	2.00	9.5
Celotex	10½	14¾- 8¼	.50	4.8	1.30	8.1
Collins & Aikman	24	28⅜-17⅛	——	——	2.25	10.7
Glidden	18	22⅜-14¾	.90	5.0	1.60	11.3
Paramount	22	30 -15½	1.30	6.0	4.10	5.4
Philco	20	26¼-13¾	.75	3.8	2.50	8.0
Kennecott	30	35⅞-28⅝	3.00	10.0	4.50	6.7
Mack Truck	31	37¼-28	3.00	9.7%	4.00	7.8
Pan-Amer. Airways	29	43¼-23½	1.00	3.5	2.00	14.5
Douglas Aircraft	45	73½-44⅞	5.00	11.1	15.00	3.0
General Electric	35	39⅞-30¾	1.40	4.0	1.75	20.0
Pure Oil	15½	19⅞-11	.75	4.9	2.15	7.2
Penn. R.R.	24	32⅛-23½	2.50	10.4	6.25	3.8
Gt. Northern	23	32⅞-21⅞	2.00	8.7	10.00	2.3
Republic Steel	16	20½-14	1.00	6.3	2.25	7.1
United Aircraft	26⅛	40 -25⅝	3.00	11.3	5.00	5.3
Freeport Sulphur	31	38¼-30½	2.00	6.5	3.40	9.1



CONCLUSIONS

MONEY AND CREDIT—Fourth War Loan Drive, for $14 billion, starts Jan. 18. Savings bond redemptions now at annual rate of 8% of total outstanding, against 3.6% a year ago.

TRADE — Commerce Department places 1943 retail store sales at $62.9 billion—9% above last year in value; but up only 1% in volume.

INDUSTRY—Runaway inflation improbable in face of huge Government inventories; but prices may continue to rise for several months despite approaching peaks in war expenditures, business activity and bank credit expansion.

COMMODITIES—Spot price average rebounds a little in past fortnight; but is still 2% under the September peak.

The Business Analyst

Resumption of coal mining has resulted in a rebound of more than two points in this publication's index of per capita **business activity** during the past fortnight, with all components of the index, save electric power output and bank debits outside New York City, reporting better than normal seasonal gains. **War production** jumped nearly 5% in October to a level 70% above last year and 6½ times the volume reported for the pre-Pearl Harbor month of November, 1941. **Aircraft** production reached a new high at 8,362 planes, against 7,598 in September.

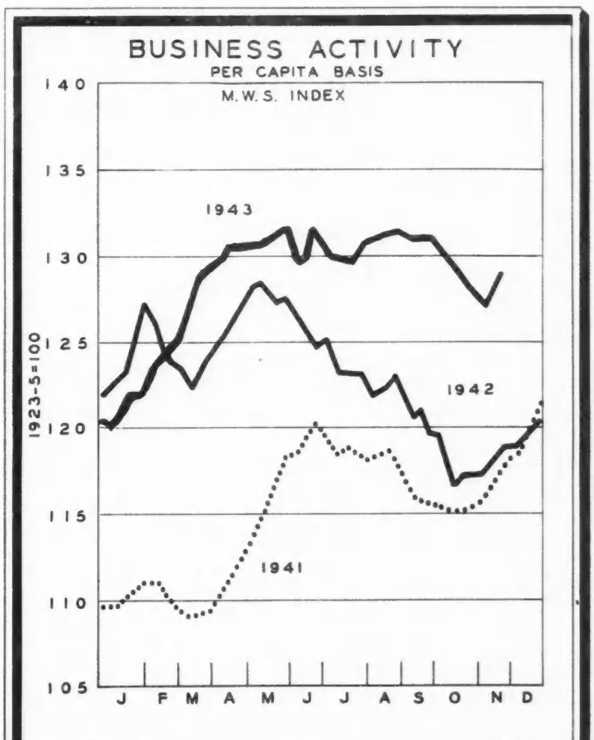
* * *

The **munitions industry**, having virtually completed its program of capital expansion in the form of plant construction and stockpiling, is now concentrating on mass production of weapons needed for replacement and, with characteristic Yankee ingenuity, is proceeding to turn out more and better war implements with less raw material and at lower cost than originally anticipated. The Army has decided that it can get along with 548,000 fewer men than the 8.2 million called for by earlier plans.

* * *

In consequence of the resulting savings, in happy conjunction with an unanticipated jump in tax receipts, the Budget Director now says

(Please turn to following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Nov. 24	1.72	1.99	1.25	0.43
Cumulative from Mid-1940	Nov. 24	145.1	143.4	61.4	14.3
FEDERAL GROSS DEBT—$b	Nov. 24	165.0	165.6	92.9	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Nov. 24	32.2	32.6	30.2	24.3
Currency in Circulation	Nov. 24	19.7	19.6	14.6	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Nov. 24	5.07	4.99	3.77	3.92
100 Other Cities—$b	Nov. 24	7.62	7.56	6.23	5.57
INCOME PAYMENTS—$b (cd)	Sept.	12.54	11.68	10.45	8.11
Salaries & Wages (cd)	Sept.	8.68	8.47	7.08	5.56
Interest & Dividends (cd)	Sept.	0.99	0.47	0.89	0.55
Farm Marketing Income (ag)	Sept.	1.94	1.77	1.73	1.21
Includ'g Govt. Payments (ag)	Sept.	2.00	1.85	1.75	1.28
CIVILIAN EMPLOYMENT (cb) m	Oct.	51.9	52.5	52.4	50.2
Agricultural Employment (cb)	Oct.	10.7	11.3	10.5	9.0
Employees, Manufacturing (lb)	Oct.	16.2	16.2	15.3	13.6
Employees, Government (lb)	Oct.	5.9	5.9	5.7	4.5
UNEMPLOYMENT (cb) m	Oct.	0.7	0.8	1.6	3.9
FACTORY EMPLOYMENT (lb4)	Oct.	170	170	161	141
Durable Goods	Oct.	232	231	207	168
Non-Durable Goods	Oct.	122	123	124	120
FACTORY PAYROLLS (lb4)	Sept.	328	322	262	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Sept.	44.7	45.1	42.4	40.3
Hourly Wage (cents)	Sept.	99.3	96.5	89.2	78.1
Weekly Wage ($)	Sept.	44.39	43.52	37.80	32.79
PRICES—Wholesale (lb2)	Nov. 20	102.6	102.9	100.1	92.2
Retail (cdlb)	Sept.	134.7	133.9	126.4	116.1
COST OF LIVING (lb3)	Oct.	124.4	123.9	119.0	110.2
Food	Oct.	138.2	137.4	129.6	113.1
Clothing	Oct.	133.0	132.5	125.9	113.8
Rent	Oct.	—	—	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Sept.	5.35	5.09	4.97	4.72
Durable Goods	Sept.	0.77	0.78	0.82	1.14
Non-Durable Goods	Sept.	4.58	4.31	4.15	3.58
Chain Store Sales (ca)	Oct.	181	179	181	151
Dept. Store Sales (rb) (I)	Oct.	145	132	128	116
Dept. Store Stocks (rb2)	Oct.	103	110	115	95
MANUFACTURERS'					
New Orders (cd2)—Total	Sept.	282	275	264	212
Durable Goods	Sept.	423	406	390	265
Non-Durable Goods	Sept.	192	191	183	178
Shipments (cd3)—Total	Sept.	261	258	224	183
Durable Goods	Sept.	356	354	283	220
Non-Durable Goods	Sept.	187	183	177	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	Sept.	27.8	27.6	29.0	26.7
Manufacturers'	Sept.	17.7	17.6	17.4	15.2
Wholesalers'	Sept.	3.9	3.9	4.2	4.6
Retailers'	Sept.	6.2	6.1	7.4	6.9

PRESENT POSITION AND OUTLOOK

(Continued from page 255)

that **war expenditures** for the current fiscal year will total only $92 billion instead of the $100 billion estimated on Aug. 1, and that the **government deficit** will be $10.9 billion less than the $67.7 billion then expected.

* * *

The Treasury announces that the **Fourth War Loan Drive** will open on Jan. 18 and close Feb. 15; though subscriptions for savings bonds and notes received between Jan. 1 and Feb. 22 will be credited to the drive. The goal is set at $14 billion—$1 billion less than in the Third War Loan Drive—with $5.5 billion to be raised from individuals. From Jan. 18 to Feb. 1 only sales to individuals will be reported by the Treasury. Commercial banks will be allowed to subscribe up to a limited proportion of their time deposits.

* * *

Sales of **War Savings Bonds** last month amounted to about $780 million, compared with only 735 million in November, 1943, despite the record total of $1,927 million subscribed during the drive in September. There are indications, however, that the drives are feeding out savings bonds to individuals faster than they can be assimilated. About a third of sales made in the September drive was facilitated by resort to bank credit which is still in process of liquidation. **Redemptions** of War Savings Bonds last month amounted to around 2/3 of 1% of the total amount outstanding, compared with only 3/10 of 1% during November, 1942. Stated otherwise: net sales of Savings Bonds last month approximated only $600 million, against $692 million for November, 1942.

* * *

With the reservation that military operations at some future date might call for a sharp step up in the tempo of armament production, it appears that cutbacks and cancellations of war orders may soon reach **deflationary** dimensions unless the theatened slack in employment and excess output of raw materials are taken up by a suitable increase in output of civilian goods.

The Government is fully aware of this need but must proceed cautiously in order to avoid the greater danger of hampering our military requirements. There is also an unavoidable time lag between the issuance of permits and actual resumption of civilian operations. For these reasons **a mild recession in** seasonally adjusted indexes of **business activity** is likely to become noticeable within the next few months.

* * *

Although war expenditures, business activity and bank credit expansion are nearing their

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Nov. 20	128.9	127.4	118.0	118.2
(M. W. S.)—1—np	Nov. 20	156.0	154.0	143.3	139.5
INDUSTRIAL PRODUCTION (rb3)	Oct.	245	244	215	174
Durable Goods, Mfr.	Oct.	372	369	311	215
Non-Durable Goods, Mfr.	Oct.	179	178	165	141
STEEL INGOT PRODUCTION (st)m	Oct.	7.79	7.49	7.58	6.96
Cumulative from Jan. 1	Oct.	74.08	66.29	71.55	75.69
ELEC. POWER OUTPUT (K. W. H.)m	Nov. 20	4,513	4,483	3,795	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	Nov. 25	66	69	37	93.5
Cumulative from Jan. 1	Nov. 25	2,885	2,819	8,896	5,692
PETROLEUM—bbls. m					
Crude Output Daily	Nov. 20	4.41	4.44	3.91	4.11
Gasoline Stocks	Nov. 20	69.00	68.62	74.74	87.84
Fuel Oil Stocks	Nov. 20	62.66	62.65	77.80	94.13
Heating Oil Stocks	Nov. 20	45.77	45.52	50.08	54.85
CARLOADINGS—t	Nov. 20	882	848	837	833
Grain	Nov. 20	55	52	46	43
Coal	Nov. 20	188	167	167	150
Manufacturing & Miscellaneous	Nov. 20	400	394	397	379
Mdse., L. C. L.	Nov. 20	106	107	92	156
Ore	Nov. 20	49	44	58	36
GENERAL					
Bituminous Coal Prod. (st)m	Nov. 20	12.70	11.27	11.72	10.80
Lumber Production (bd. ft.)m	Nov. 20	635	627	633	632
Paperboard New Orders (st) t	Nov. 20	127	153	146	165
No. Am. Newsprint Prod. (st)t	Oct.	347	339	378	411
Do., Stocks (mpt) End Ho. (st)t	Oct.	615	631	892	745
Whiskey Stks. End Mo. (tax gals.)m	Oct.	399	406	488	506

PRESENT POSITION AND OUTLOOK

peaks, **prices** in many instances have not yet caught up with costs. During September and the first three weeks of October, OPA approved 97 price advances, but ordered only 22 rollbacks.

* * *

In view of the advanced stage of the war we can not share the fear that further moderate upward adjustments of wages and prices here and there over the next few months may touch off an inflationary explosion. On the contrary, we would suggest that inflation alarmists keep their eyes on the $70 billion dollars worth of outdated and surplus **inventories** which, according to the Small Business Committee, the Services now have on hand.

* * *

Christmas shopping began early this year, and in the week ended Nov. 20 **department store sales** rose to 21% above last year, compared with increases of only 14% for four weeks and 12% for the year to date. The Commerce Department estimates that **retail store sales** this year will reach the record total of $62.9 billion —9% above last year in value; but up only 1% in volume. Available **whiskey** stocks are smaller than shown by the accompanying figures, after allowing for reserves of over 100,000,000 gallons for post-war blending purposes.

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dept., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cd lb—Commerce Dep't. Index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. l—Seasonally adjusted Index, 1923-5—100. lb.—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. mpf—At Mills, Publishers & in Transit. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, adjusted index, end of Mo., 1923-5—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

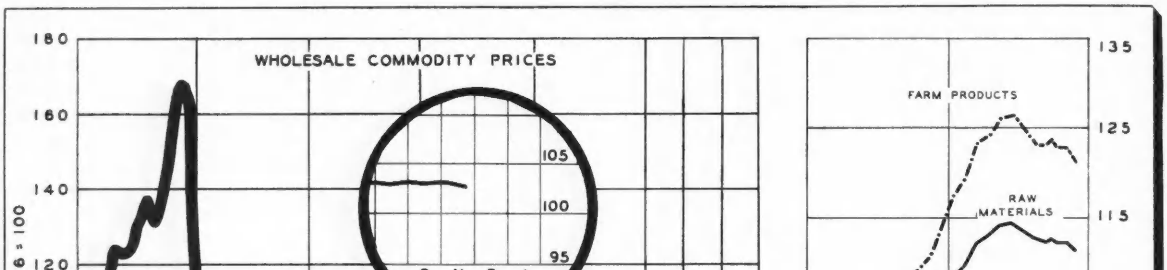
No. of Issues (1925 Close—100)	1943 Indexes High	Low	Nov. 27	Dec. 4
273 COMBINED AVERAGE	89.9	54.5	73.0	74.3
3 Agricultural Implements	156.5	105.2	132.4	136.6
9 Aircraft (1927 Cl.—100)	179.2	112.7	114.6	112.7e
5 Air Lines (1934 Cl.—100)	560.3	363.1	425.2	419.6
5 Amusement	78.4	40.2	60.4	64.0
12 Automobile Accessories	142.1	83.0	104.8	107.0
13 Automobiles	21.0	9.7	15.4	15.5
3 Baking (1926 Cl.—100)	15.0	8.5	12.0	12.2
3 Business Machines	197.1	129.4	163.5	169.0
2 Bus Lines (1926 Cl.—100)	96.6	54.9	81.2	83.9
5 Chemicals	194.7	153.5	169.5	168.7
13 Construction	38.0	23.3	30.6	31.1
5 Containers	240.4	177.1	210.0	210.4
8 Copper & Brass	82.5	61.8	62.2	61.8a
2 Dairy Products	40.5	29.7	37.7	38.1
6 Department Stores	32.2	15.4	26.8	27.9
5 Drugs & Toilet Articles	89.6	50.9	79.6	81.2
2 Finance Companies	237.3	152.6	215.0	213.5
6 Food Brands	131.9	85.5	114.4	117.4
2 Food Stores	47.8	37.7	45.3	45.7
4 Furniture	63.5	35.0	52.0	54.9
3 Gold Mining	1000.7	610.3	818.5	859.4
6 Investment Trusts	39.1	22.7	31.4	32.5

(Nov. 14, 1943, Cl.—100)	High	Low	Nov. 27	Dec. 4
100 HIGH PRICED STOCKS	68.01	52.87	59.62	60.27
100 LOW PRICED STOCKS	88.00	43.61	67.11	68.93
3 Liquor (1932 Cl.—100)	302.5	197.1	283.5	281.7
8 Machinery	111.6	82.6	98.2	99.7
2 Mail Order	91.8	61.8	81.7	84.3
3 Meat Packing	62.0	34.9	49.7	49.4
10 Metals, non-Ferrous	155.7	106.8	117.0	115.1
3 Paper	13.5	9.0	12.2	12.5
21 Petroleum	141.4	86.9	118.8	119.7
18 Public Utilities	58.1	23.2	44.3	45.6
3 Radio (1927 Cl.—100)	26.1	12.1	19.0	19.4
7 Railroad Equipment	57.4	32.1	43.6	45.4
17 Railroads	18.6	9.8	12.7	12.9
2 Shipbuilding	106.1	61.2	61.2d	63.4
3 Soft Drinks	337.1	197.8	286.4	294.3
12 Steel & Iron	79.3	57.6	63.8	62.9
2 Sugar	47.2	32.2	38.1	37.3
2 Sulphur	196.2	161.9	162.3	161.9a
3 Telephone & Telegraph	114.4	67.0	100.7	102.3
3 Textiles	56.7	33.7	43.9	45.2
3 Tires & Rubber	27.7	16.5	23.7	24.5
4 Tobacco	67.7	52.2	57.3	57.8
2 Variety Stores	233.8	182.4	208.3	210.5
20 Unclassified (1942 Cl.—100)	190.0	100.0	143.3	147.7

New LOWS since: a—1942; d—1939; e—1938.

Trend of Commodities

The Labor Bureau's price index of 7 domestic agricultural commodities staged a recovery of about half of one per cent since our last issue; but is still 2% under the war time peak touched two months ago. A number of farm staples sold off for awhile under rumors of an early end to the war in Europe and then rebounded following Secretary Hull's statement that such hopes are Nazi inspired to undermine our morale. Wheat spurted to a new 18-year high upon announcement that the R. F. C., beginning Dec. 1, will allow subsidies to flour millers liberal enough to enable them to pay as high as parity for the bread cereal. The rise was helped along by heavy Government purchases of flour and reports of a possibly poor winter wheat crop in the Southwest. A rally in cotton was assisted by announcement of the mid-November parity priec of 20.71 cents a pound—13 points higher than for October. Corn sales have come to a virtual standstill pending disclosure of a promised upward revision of ceiling prices. Support loans on the 1943 crop throughout the mid-western belt will average about 10% higher than on the 1942 crop, and 23% to 33% higher outside the corn belt. FDA says that civilians will get 75% of U. S. production for 12 months ended Sept. 30, 1944, Armed Forces 14% and lend-lease 11%, about in line with expectations.

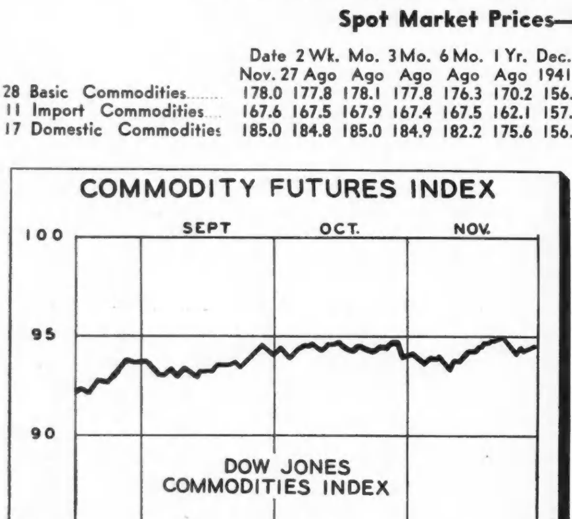


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

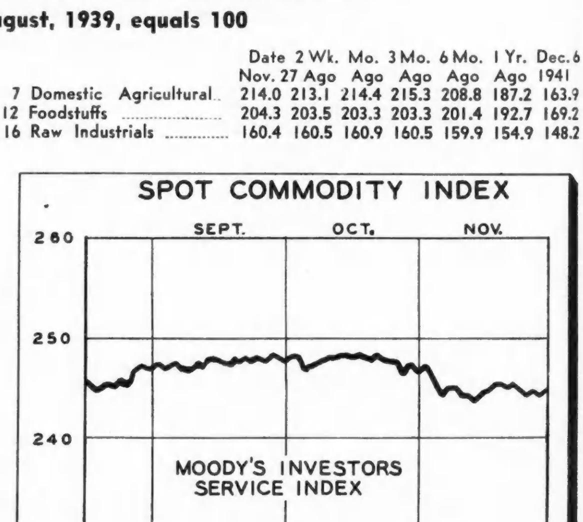
	Date Nov. 27	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	178.0	177.8	178.1	177.8	176.3	170.2	156.9
11 Import Commodities	167.6	167.5	167.9	167.4	167.5	162.1	157.5
17 Domestic Commodities	185.0	184.8	185.0	184.9	182.2	175.6	156.6

	Date Nov. 27	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	214.0	213.1	214.4	215.3	208.8	187.2	163.9
12 Foodstuffs	204.3	203.5	203.3	203.3	201.4	192.7	169.2
16 Raw Industrials	160.4	160.5	160.9	160.5	159.9	154.9	148.2



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	95.11	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

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	1943	1942	1941	1940	1939	1938	1937
High	249.2	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.3	220.0	171.6	149.3	138.4	130.1	144.6

Varying Positions of Steel Companies

(*Continued from page 245*)

profits on an ultra-conservative basis. 1943 net is now estimated at about $1.60 per share versus $2.67 last year, reflecting the last-mentioned factors rather than any adverse turn in the company's operations.

The stock currently sells about 6 times 1942 earnings, and 10 times estimated 1943 net. The latter, paralleling the performance of steel companies generally regarded most favorably situated, is indicative of the fairly optimistic market judgment in discounting the company's prospects.

Allegheny-Ludlum, second largest alloy maker, shares with Republic leadership and potentialities in the field. Unlike Republic, it is not completely integrated and purchases limestone and pig iron from outside sources but considering the present high wage structure, this is hardly a disadvantage. The campany's well established trade position should be helpful in meeting post-war competition, and there appear to be real possibilities in its new Pluramelt steel, a revolutionary product. Serving largely consumer durable goods industries, post-war prospects are promising. A clean-cut capitalization and low break-even point of operations impart considerable earnings leverage. The latter is demonstrated by the virtual doubling of the profit margin – before depreciation and taxes–from 11% in 1939 to about 22% in 1942. This year's net should approach at least last year's of $3.71 per share, compared with the 1941 peak of $3.86; due to higher taxes, earnings in recent years, as in the case of other steel companies, have not expanded in proportion to sales. Selling about 7 times estimated 1943 net, and little more than 10 times 1937 net of $2.15 per share, the stock should have market possibilities once the peacetime outlook becomes more clearly defined.

In the light steel field, Acme Steel, Inland Steel and National Steel are considered best situated, all selling around 10 times 1942 earnings. Acme Steel, concentrating on hot and cold rolled strip steels, can look back on a most favorable earnings and dividend record, showing a small profit even in the depth of depression in 1932. A compact and efficient unit, and principally supplying the automobile industry, its potentials are decidedly better than average. Outlets include virtually all types of manufacturing activity, a fact largely responsible for the company's marked stability of earnings. Finances are strong and capitalization consists of a relatively small common stock issue only, affording great earnings leverage. Good cost control and efficient management which holds a substantial part of the common, are added factors of strength. Selling only 9 times 1937 earnings of $5.78 per share, existing market possibilities are obvious. On virtually every count, Acme has long been our favorite in the steel field.

Inland Steel, a highly compact and fully integrated low-cost producer with about 60% of output consisting of light steel products, has also a remarkable earnings and dividend record though in 1932 a deficit was incurred. The longer term average shows earnings of better than $6 per share, with dividends averaging about $4. In point of net earnings on invested capital, the company ranks first. Over the long run, Inland should increase somewhat further its proportion of the total available business, extending the trend of pre-war years. As the seventh largest steel maker, the company produces a full line of steel products except pipe and wire, and supplies a wide range of important industries including the automobile, farm equipment, industrial machinery industries, railroads, the building and container trades, imparting considerable stability of sales and earnings. Selling barely 9 times 1937 earnings of $8.05 per share and slightly below book value, the current price hardly reflects post-war potentials and the company's outstanding financial position, highlighted by a rise of $70.5 million in total assets between 1929 and 1940 against an increase in funded debt of only $20.2 million. Working capital is $55.89 million compared with $42.27 million in 1937.

A close rival is National Steel, fifth largest and well integrated producer. Predominance of light steel output and advantageous plant locations have tended to keep operations above industry average and earnings were well maintained even during the depression years. Conservative dividend disbursements tended to bolster working capital in the face of heavy plant expenditures during the last decade. Consuming channels include most leading industries with the automotive field taking about one-third of output which should greatly enhance post-war potentials. Selling over 10 times 1942 net and barely 7 times 1937 net of $8.21, the stock should be in line for considerable appreciation once peacetime production draws nearer.

Best situated among heavy steel producers is U. S. Steel, industry leader and erstwhile market favorite whose record is too well known to require much amplification. Expansion into the lighter steel field has checked the previously declining trend in relative trade importance but volume continues the prime determinant of costs and earnings. While henceforth the preponderance of heavy steel output will be less of a drag in poor times, the "break-even" point remains relatively high and cost factors decisive, but as soon as operations rise over 70%, Steel has always been an excellent earner. If we get anything approaching the post-war recovery boom so frequently prophesied, the company should operate around 80% or higher, probably near 90%, for several years. At that rate, earnings in the past were quite substantial. "Big Steel" will enter the post-war era in vastly improved condition, financially by virtue of its lavish reserve policy and technically as the result of tremendous and hardly realized technological and plant improvements. These factors should make themselves felt in the form of sharply stepped up earning power, far from discounted by the current price of the common. For that reason, Steel may yet turn out to be one of the most promising speculations on our post-war recovery.

Both in point of post-war perspectives and war-time earning power, steel shares as a group appear undervalued. Mistakenly, in our opinion, they are rated as war stocks in the first instance under complete disregard of the importance of steel to our post-war recovery and normal peacetime prosperity. Equally ignored is the truly outstanding technological progress of the steel industry during the war which often is hardly realized and may have important effects on post-war earning power. Nor has there been too much emphasis on financial progress as illustrated in the accompanying statistical table.

The "prince and pauper" idea, seemingly, is still a powerful psychological factor in public appraisals of longer term prospects but we believe that with proper selection and timing, the steel group should offer excellent speculative media for the recovery period. Right now, prices are nearer the lows than the highs of the year but of late, resistance to market pressure has been quite good. If anything, it should indicate that steels are in as good a position as any to lead a market rebound once a turning point has been reached.

Investment Audit of Farm Equipments

(Continued from page 242)

principally of the lighter types. The concern made good progress in a normally highly competitive field and managed to treble its sales since 1935 but increase in net proceeded at a slower pace. Yet per share earnings were consistently good, aided by a small capitalization. To build working capital, dividends remained conservative.

For technical reasons, the company has been unable to do much war work but volume up to 1942 was well maintained due to large inventories. A decline is likely this year but should be moderate and with restrictions on normal output greatly liberalized, a sizable rebound in volume and some improvement in earnings is indicated for the nearby future. The company has the benefit of a progressive management, is financially well situated and prospects should conform at least to industry average presaging good earnings for a number of years.

Listed on the N. Y. Curb Exchange, the stock of late has been somewhat sluggish but should perk up with the return to normal business on a larger scale. It currently yields about 6% and is selling 7 times 1942 earnings. Over-all prospects appear modestly capitalized at current levels of about 18, somewhat below book value of $20.05 per share and holding close to the year's high of 21⅞.

Last but not least, we mention Caterpillar Tractor, not strictly an agricultural implement maker but with an important stake in that field by reason of its large tractor output which normally accounts for 50% of total sales. The bulk of production continues in regular lines though directly or indirectly used for war purposes. For the first ten months this year, net came to $3.54 per share compared with $3.72 for the entire last year; total 1943 net should be close to $4.50 per share.

Sales will remain high for the duration and potential future markets appear good for track-type tractors and diesel engines although competition in both fields is increasing and Caterpillar's over-all sales will probably be mainly governed by the vagaries of demand for heavy construction machinery but here too the immediate post-war outlook is promising. Company's capitalization is clean-cut, only notes payable of $1.50 million preceding the common. The company's recognized earning power reflected in unusually steady dividend payments lends the reasonably priced common stock fair appeal. The equity, yielding about 5%, is currently hovering around the year's low of 40⅜ and sells about 11 times 1942 earnings and barely 8 times 1937 earnings. That year's price range was 100-40 which should be a fair indication of market possibilities of the stock under auspicious market conditions.

Summing up, we are inclined to give Deere, Allis-Chalmers and International Harvester an edge over the rest of the field if commitments are contemplated though timing is important. The lesser companies, notably Oliver and New Idea, may promise relatively higher speculative profits, for a time, but risk factors are obviously greater. J. I. Case's appeal is limited since the stock is in a fairly high price area, considering today's market conditions, though over-all prospects for the company are by no means inferior. Most important underlying factor in all cases is the excellent industry outlook promising sustained high activity and proportionate good earnings for a considerable period, possibly three to five years.

Shifts in Corporate Earnings Outlook

(Continued from page 226)

Earnings prospects *after full reconversion* hinge largely on prompt repeal of EPT as we may take it for granted that Government and industry will strive to the utmost to create conditions favorable for maintenance of a high production level once the change-over to peace production is completed. Volume, for a number of years, should be no problem but profits is another matter. They should be substantial if EPT are repealed promptly after the war ends. But will they? So far the Government has not committed itself to a definite date. Their retention would mean profit ceilings which could only be justified by prolonged and severe unbalance of the national budget. Thus the problem boils down to a question of fiscal management.

During war time unbalanced budgets are accepted as a matter of necessity but were the tax collector to assess peace time incomes at present tax rates, our post-war prosperity would be gravely jeopardized. It would amount, at least for a time, to continuance of industry's war role

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as manager of a Government directed economy, more or less, since profit limitation to certain pre-war averages would certainly tend to kill in the bud any resurgence of corporate enterprise and investment activity. Only fiscal difficulties of the severest sort could conceivably bring this about.

However, there is no blinking the fact that we may face a situation where temporary deflationary trends due to transitional causes may be seized upon to push through a vast pump priming program requiring heavy outlays and as a corollary continuance of high taxes. Congressional sentiment fortunately is veering away from that type of post-war planning and rather would create conditions enabling industry to assume the task of providing employment, thereby minimizing pump priming needs. Appointment of Bernard Baruch to the job of formulating policies and specific programs to deal with the problems which must arise when war contracts come to an end is an encouraging sign though without strong public support it is by no means assured that any sound program he may formulate will be accepted by the powers that be. Still and all, anything even approaching pre-war taxation appears not in the cards for a considerable period after the war, and this must be taken into consideration in evaluating the long-term earnings outlook.

Over-all industrial production during the post-war recovery phase—after reconversion—has been estimated by some to average about 40% below war-time peaks. With EPT removed, corporate profits even on this lower volume should materially exceed current results, on an over-all basis. With EPT retained, profits, thanks to the tax cushion may not take the expected nose dive during the initial stages of the recovery period but comparisons would tend to become increasingly unfavorable thereafter. In some cases they would still be satisfactory, in many they would not. Any change in the tax structure would naturally have proportionate effects. This makes it plain that prompt repeal of EPT after the war ranks perhaps first, from an earnings standpoint, among the entire array of reconversion problems which are likely to beset industry.

The stock market is doubtless aware of this as demonstrated by its recurrent attacks of "peace fright" which have driven equities to levels that appear to discount more than just the brief transitional phase, a profitless period of relatively short duration for the great majority of

industries. Rather, the market's doubt, in the face of approaching peace, revolves around questions of public policy, around political rather than purely economic contours which it professes to discern on the horizon of tomorrow. In this connection, it is well to remember that the future will be very much what we make it.

Companies Benefitting Now From Tax Cushions

(*Continued from page* 231)

the two periods, it was found that the "cushion" was less than 1%.

A number of other companies had small percentages of savings of part of their net income in 1943 reports as compared with 1942. Among them are American Viscose, Pittsburgh Steel, American Seating, Briggs & Stratton, and some of the airplane manufacturing and armament makers.

The Square D Co. report looked like a good example of such savings when first examined, for net before taxes was over $2,800,000 under that of the year before in the nine months to September 30, 1943, and net after taxes was only $767,000 down, but the actual tax payments had been 74.6% of net income in 1943 against 74.1% in 1942. It seemed difficult to understand this, in view of the fact that excess profits taxes must have been much smaller but the other taxes may have been figured at a larger total in the current year, which has been the case in several of the companies mentioned above, with the normal and surtax payments larger in amount in the 1943 reports on a smaller earnings total.

Just as smaller pre-tax earnings have worked out to save a large amount of the excess profits tax payments in 1943 in companies such as those named here, in examining a large number of reports, the reverse was found to be the case where net incomes before taxes were much larger in 1943 than last year. A number of reports were found where this increase in earnings had been accompanied by such an increase in the excess profits taxes that the net after taxes was less than in the year before.

The conclusion that is reached from a consideration of these earnings and tax figures is that many industrial companies are not much affected by the size of the normal and surtax rates as they are by excess profits taxes, and that they have not been "making money out of the war." Conversely, it may be concluded that earningswise the return from war to peace production, in many cases, will hardly have the repercussions once feared.

Speculative Opportunities Enhanced By Market Reaction

(*Continued from page* 254)

however, lies in future prospects. Considering the company's prominent position as a supplier of the automotive industry, a post-war favorite par excellence, the market is agreed that the company's outlook holds superior possibilities. As a consequence, the stock displayed above average resistance to selling pressure and its decline from the year's high has been rather less than 10%, leaving the equity nearer the year's high than its low. The price-earnings ratio of about 10.7 to 1 represents a most conservative capitalization of future prospects. Finances are thoroughly sound. Working capital amounts to $10.26 million; cash and equivalent is $1.24 million against current liabilities of $1.46 million. The company whose management is known as far-sighted and resourceful should do exceedingly well after the war; its excellent pre-war record can by no means be viewed as a potential upper limit. In 1937, on annual earnings of $3.85 per share, the stock reached a peak price of 62¾, up from the low of 18. Today, at 24, it can be considered as having barely scratched appreciation possibilities which can be expected to materialize as soon as reconversion of the automobile industry is definitely in sight.

Philco Corporation is among the small number of radio manufacturers who despite intensive competition managed to operate on a profitable basis; not only that but the company enjoyed a moderate but very definite pre-war growth trend in earnings, far outdoing its bigger rivals such as RCA. Philco has been among the largest makers of radio receiving sets since 1930 and does about 20% of domestic business in this field. To diversify operations, the company undertook the sale of air conditioning equipment (manufactured by New York Ice Machinery Corp.) in 1938 and distribution of electric refrigerators, manufactured by others to the company's specifications, in 1939.

Prior to the war period, home radio receivers accounted for over half of sales and automobile radios for about 10%. The remainder of volume consisted of refrigerators, air-conditioners, storage and dry batteries, and radio tubes and parts. Only about 6% of sales went abroad. Right along, the company has been a leading factor in electronics, television and frequency modulation, having been engaged in intensive research in these fields. Its research laboratories are among the most modern and extensive. The company's long-term record warrants expectation that it will be right in front after the war when the struggle for markets is resumed. Since backlogs of deferred demand are large in all products wherein the company is interested, a period of high activity, variously estimated between 1½ and 3 years, appears assured. Earnings will largely depend on the type of competition it will encounter; in the past the company proved its ability to meet it effectively and still report sizable profits. The common's current price of about 20 is mid-way between the year's high and low, and compares with a 1940 top of 15 and a 1941 high of 12½. Since it is listed only since 1940, no comparison is possible with either earnings or market price established for the 1937 recovery cycle but potentials should be considerably above the 1943 results currently estimated at well above last year's 1.83 per share. The current narrow yield of 3% reflects favorable market opinion on the company's outlook which on basis of a price-earnings ratio of about 12 to 1 should leave room for further improvement once post-war prospects are more clearly defined.

In the aviation field, United Aircraft despite the unusual circumstances characteristic of this industry under war-time conditions has managed to preserve a healthy financial status which should stand it in good stead when the time arrives to cash in on the admittedly excellent opportunities of the post-war era once reconversion is successfully overcome. The company's balance sheet represents a most conservative picture. Plant investment has been steadily reduced and on June 30 amounted to $15.7 million against $17.3 million at the end of 1940 when the war rush really began. This is a truly negligible increase, not only on basis of the huge volume of business done now but also viewed against the background of post-war potentialities which while far below current swollen war-time volume should on the other hand be very considerably above pre-war. Thus the company's cost structure has been kept at an unusually low level, a most

favorable factor in appraising future prospects. In common with all aircraft companies, working capital has failed to keep pace with volume yet appears adequate to support to vastly greater post-war volume of business provided the company emerges from reconversion in good shape. And this touches upon the most vulnerable point in the aircraft picture, despite reconversion resources which have been estimated as high as $100 million, including working capital.

With the cost of reconversion an unknown factor, United despite the almost sensationally favorable statistical picture, has been rather in the dumps, along with all others in this category, yet one cannot help feeling that pessimism is vastly overdone. This brings to mind the recovery possibilities inherent in the situation. Both financially and technically, United bids fair to emerge from the war as the leader of the industry, and regardless of what measure of contraction the latter will have to undergo, should have good if not excellent earnings possibilities after return to a normal basis of production. Nevertheless investor doubt is such that the market price is now close to the year's low of 25⅝, affording a yield of over 11% and establishing a price-earnings ratio of about 5.5 to 1. The latter, incidentally, is the highest of the entire aircraft group for which the average is barely 3 to 1. Thus even market opinion appears to single out United as the most promising of the lot, in our estimation correctly so. The factor of Government policy, vital in the picture, is perhaps the greatest uncertainty making for investor doubt. Once it is clarified, United should, on purely statistical as well as general outlook considerations, do considerably better than presently. Admittedly risk factors are great but so are enhancement possibilities once the former are wholly or partially removed.

Much has been said in the past about the relative merits of copper shares which have been under a cloud for the better part of the war period. Considerable expansion of world-wide capacity, coupled with fears of competitive inroads of other materials, tended to depress market opinion to the extent of making for extremely listless and uninspiring market action even during last year's recovery movement of the market as a whole. Here, too, pessimism appears overdone and as a consequence, such an outstanding company as Kennecott is appraised by the market at almost ridiculously low ratios. Selling near the year's low of 28⅝, and yielding 10%, the price-earnings ratio is about 7 to 1, abnormally low for a company of this calibre. As a low cost producer, Kennecott has consistently reported operating profits nearly twice as high as Anaconda (percentagewise) and returns on invested capital averaged better than 10%.

Many holders, or potential buyers, seem to be obsessed with the fear that after the war, heavy scrap recoveries, competition from light metals and plastics, and sudden world-wide cessation of military demand will result in a tremendous surfeit of the red metal with appalling consequences for the copper mining industry. That the industry will probably face a difficult position cannot be denied but the outlook, soberly viewed, can hardly be as dark as commonly assumed. More especially, it must not be forgotten that copper will remain one of the most important industrial raw ma-

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RIDE ON STRANGER
KYLIE TENNANT
The MacMillan Company. 322 pp. $2.75

A colorful portrayal of youthful reaction to the incongruities of modern city life, politics and civilization in general. Essentially serious in concept, sometimes inclined to be dogmatic, the narration is fortunately interlarded with humorous, often deftly satirical divertisements, adding life and flavor to a story of discontent and disappointment in the heroine's search for spiritual equilibrium and the meaning of life in a shallow and materialistic world. While the scene is Australia, the action could well have taken place in America. The path by which the heroine finds maturity wanders through boarding houses, radio studios, left-wing politics and mental uplift societies. The author has traced her progress with skill and good insight, at the same time presenting an excellent picture of Sidney about which we have little acquaintance in fiction.

THE DISPLACEMENT OF POPULATION IN EUROPE
EUGENE M. KULISCHER
International Labour Office. 171 pp. $1.50

A factual account of the uprooting effect of war on Europe's populations. The author estimates that over 30 million people have been torn from their homes and native soil since the beginning of the war. This well-documented study opens our eyes to the magnitude of the post-war resettlement task. It proposes action on an international scale to cope not only with the stupendous task of repatriation but also envisions the corollary problem of redistribution of labor in a newly organized post-war Europe.

PEACE AND WAR, UNITED STATES POLICY 1931-1941
Department of State
U. S. Government Printing Office. 874 pp. $2.00

A volume of documents constituting an appendix to the State Department's earlier White Book "Peace and War" published January 2nd. Even though all but 116 of the 274 documents were previously published, the volume is significant as an historical source book. It offers documentation that as early as 1933 Secretary of State Cordell Hull believed war was probable.

INVESTMENT COMPANIES AND THEIR SECURITIES
ARTHUR WIESENBERGER
Arthur Wiesenberger & Co. 180 pp. $10.00

The company's third annual edition (1943) containing complete statistical and factual data relating to investment companies and their securities. A valuable manual for brokers and investors dealing with every aspect of this type of companies, the merits and special uses of investment company shares, with complete comparative data of company results from 1930 onwards. Definitely worth its price to those interested.

THE AMERICAN
JAMES TRUSLOW ADAMS
Charles Scribner's Sons. 404 pp. $3.00

Mr. Adams in his masterly way describes the effect of American environment on character formation and evolution of popular psychology, a fascinating subject, and, viewed in a broader sense, a story of American evolution. Drawing on his historical knowledge, he traces skillfully the evolution of American characteristics, explaining it in terms of the past brought up to the present. He tells it well and interestingly though with a tendency to gloss over the more unpleasant chapters of our history. While conservative and often conventional, the author is admirably helping to answer the question: "What is an American?"

WHAT TO DO WITH ITALY
GAETANO SALVEMINI and GEORGE LA PIANA
Duell, Sloan & Pearce, Inc. 295 pp. $2.75

The book seeks to offer plain and forthright advice on what to do with post-Mussolini Italy. It is essentially an indictment of United Nations policy towards Italy that is no less stinging for its quiet irony and temperateness. While written before the dictator's fall, the authors have called the turn on subsequent events. They find particular fault with the American propaganda line towards the House of Savoy and the potential liberal forces in and out of Italy, that is encouragement of the former and discouragement of the latter. They reject the idea that the Italian people are solely responsible for Fascism. Their solution is removal from power of the House of Savoy and creation of an independent democratic regime to work out the country's salvation without outside interference.

AMERICAN POLITICAL PARTIES
WILFRED E. BINKLEY
Alfred A. Knopf. 407 pp. $3.75

Here is a book that digs deeply into the political habits of the American people, presenting a strikingly fresh interpretation of the development of parties and statesmen. Many new and independent judgments appear before the reader's eyes. Republican disintegration was not inevitable, says the author. Rather, the party failed to produce "specialists in group diplomacy" who would never had neglected the farmers "without whom no party since the Federalists has remained in power". The book should be read with profit and enjoyment by all Americans who desire to know "who gets what, when and how" after the votes are counted.

SECRET SOURCES
WYTHE WILLIAMS and WILLIAM VAN NARVIG
Ziff-Davis Publishing Co. 326 pp. $3.00

In this book, Wythe Williams, well-known journalist and radio commentator at last bares his secret sources of information which prior to Pearl Harbor kept him so accurately informed about what was going on in Nazidom and frequently enabled him to scoop the entire news world. Were it not for the author's reputation and his scoops which were real enough, the story might well be called fantastic. It tells how with the aid of his associate, Van Narvig, he managed to organize a private information service reaching into the very inner sanctum of Nazi hierarchy and the Gestapo. The book textually reproduces the frequent and lengthy communications received out of Germany, often truly sensational and throwing an interesting light on Nazi policy and Nazi methods.

THE SPIRIT OF ENTERPRISE
EDGAR M. QUEENY
Charles Scribner's Sons. 242 pp. $2.00

A forthright, and considering the source, an amazingly unbiased discussion of the evolution of the free enterprise system in America, its faults and virtues and the role it played in making America great. It is probably the first time that this subject is so frankly and thoroughly explored by a leading industrialist. The author who is chairman of the board of Monsanto Chemical Co., believes that the case for free enterprise has been obscured during recent years. He performs a real service by stating that case strongly and simply, and, what is more, convincingly. Few can find fault with his treatment of a subject that normally lends itself so readily to controversy. His conclusion is that in efficiency and service, free enterprise can never be matched by bureaucratic Government control.

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terials and can be assured of a sizable market during whatever recovery boom may lie ahead. Reconversion alone should make for good domestic demand and reconstruction work abroad is bound to assure equally sizable outlets for some time to come. In view of the existing price peg, no price deflation of any considerable import is in sight; rather, when free markets once more exist, a higher price trend may well materialize in line with rising general costs.

Once these trends begin to take definite outline, the market may well revise its present opinion on copper company prospects. At present Kennecott, among other leaders in the field, is virtually on the bargain counter, everything considered. Its long-term earnings and dividend record alone, apart from the concern's sound financial position, should serve to go far towards reorientating market judgment when the time is ripe.

General Electric vs. Westinghouse

(*Continued from page* 250)

that also, in the next period of aggressive advance in markets as a whole, it may have a relatively larger upswing than General Electric from present market levels.

There are a number of other companies in the fields which are covered by the two large companies above. Not one is even close to either of them in size. The next largest distinctly electrical goods company in 1942 had only one-eighth of the gross business of Westinghouse and one-twentieth of that of General Electric. That does not prevent some of the stocks of these smaller companies from having very attractive market possibilities. A great expansion in civilian use of many electric materials is looked for after the war ends. This should be of especial benefit to McGraw Electric Company, which makes a number of household products of which some of the best known are the Toastmaster and Wafflemaster. It also has a large business in fuses, lamps and a number of other smaller items. The war has handicapped its business, but postwar prospects are good and a return to the former $2 annual dividend rate may develop after the war. Square D Company, which is a leader in making instruments and various electrical goods; Cutler-Hammer which specializes in electrical control devices used in industry; Master Electric which makes motors and other moving electrical equipment; and Sylvania Electric Products, which makes lamps, radio

tubes and electronics devices, are among others in this industry which have good possibilities for postwar expansion. There are also the many companies in the radio, television, electronics, electric refrigeration, and other lines which might belong under "electrical goods industry" which may participate in a larger postwar business than they had in the pre-war years.

Columbia Broadcasting

(*Continued from page 243*)

exercise some control over commentators' methods and morals. With the potential threat overhanging any station of the loss of its license, there is always the possibility that broadcasting may become involved in politics.

On the other hand, the current discussion is helping to clarify the morals of broadcasting. Commentators are being instructed to make a clear-cut distinction between factual news and their own interpretive comment, which is essential to protect the listening public. The practice is gaining—witness Mayor La-Guardia's recent concession of time on WNYC to Mr. Curran— of allowing equal time to an opponent to answer political charges, thus opening the air to political debates. It remains for Congress to clarify the rules, and for the FCC to enforce them.

The present quarrel over regulation, and the restrictions imposed by the war, will eventually be ended. For the future the development of television opens up an interesting vista of growth possibilities. The broadcasting industry may ally itself with the leading film companies for joint development of the new field. Television had almost reached the stage of commercial development when the war diverted research activities, but it should not take long after the war is over to reopen its commercial and advertising possibilities.

If, as many believe, our national political environment becomes more "conservative" after the war, higher investment favor will probably eventually attach to equities of utilities and other regulated situations such as Columbia Broadcasting.

Meanwhile the possibility of more stringent regulation, and its effects on earnings potentials, will remain an intangible but important factor in the outlook probably more than offsetting expectation of a marked uptrend in advertising revenues in the wake competition for lucrative post-war consumer markets.

"Nose Dive" Says J. C. Clifford

(*Continued from page 236*)

sion, to translating into realities the wonderful dreams of our post-war planners. Industry and business will not branch out when they are afraid.

As the outlook appears today, the partial reconversion period will witness a business slump of moderate proportions with duration and intensity depending on the handling and speed of reconversion activities. Quite a number of industries may enjoy relative boom conditions in volume if not in earnings. Others, where transition is more difficult and war work entirely suspended, are likely to be slow in returning to a peace production basis. Obstacles may be severe, beyond mere technical problems. Often vast areas of business relationships will have to be re-established from the ground up, and this takes time.

War-time progress in technology enabling larger production with fewer men is likely to become an unexpectedly serious handicap in the re-employment process. A hint of the revolution in labor-saving devices is found in a recent report of the Department of Commerce that if our output after the war is no greater than in 1940, there will be over 19 million unemployed.

Apart from such as the aforementioned factors, one cannot rationally expect civilian demand to expand virtually 100% within the span of, say, 18 months to take up the 50% decline in total war demand. As far as business is concerned, the inevitable upshot will be a sizable decline in the production curve, reflecting growing spottiness in many directions. While some industries are booming, others may be depressed. Just which will be among the former, and which in the latter category, is difficult to prophesy; it would seem to depend largely on such factors as reconversion order, reconversion speed, the percentage of war business retained, the flow of materials and parts from satellite industries, and a host of imponderables not now foreseen. Spottiness in the production field will inevitably result in irregular earnings trends and a drop in over-all corporate earnings. Full reconversion will intensify these trends.

In view of such an outlook which must by no means be considered over-pessimistic, it is little wonder that attention of our post-war planners is increasingly veering towards

a compensatory economy, that is an economy where tax policy and our debt structure is utilized to keep national income high, thereby sustaining employment at highest possible levels. It would mean high tax rates and a good many Government controls for many years after the war.

it would also mean large public works programs, all-embracing and possibly higher social security benefits and a flexible tax policy embodying staggering new thoughts which now appear in the making. Greatest advantage would lie in their neutralizing effects on extreme economic swings. While initially they may shock business confidence and retard the recovery process, they may well offer the only way out of an extremely difficult situation though it would almost certainly blast present hopes of a profitable post-war boom. There might be a boom, as far as volume is concerned, but profits would be disappointing.

The only alternative, as the writer sees it, is concrete planning *now* to provide private enterprise with a definite basis to build on when the moment for reconversion is here. Even then, there will be many pitfalls on the road from war to peace.

For Profit and Income

(Continued from page 247)

log demand may be "used up" while the companies are still subject to peak wartime tax rates. On a comparative basis, this premise is in favor of building stocks. If the post-war economic pattern is anywhere near as favorable as most economists think it is, the upward cycle in building will last longer than in any other activity. Hence, the major part of the boom in building materials will be experienced when corporate tax rates are below the war-time peak. Probably the same is true, in moderately less degree, of the automobile industry. However, in relation to past bull market highs, many building stocks—though not all—look cheaper than the leading automobile stocks. Then, too, generally speaking, they have no reconversion problem, while the auto industry not only has a reconversion problem but the biggest such problem of any industry.

Chemicals

In our perversity we just don't have much enthusiasm for stocks that most everybody else seems to like—especially when popular favor results in prices which mean a current income return not significantly greater than on a pretty good bond and without the capital safety of such a bond. We are talking about the highly prized chemical group. We don't deny any of the strong points that analysts have so profusely stressed. But how much of a good thing any stock may be depends—in our eyes—largely on the price you have to pay for it. A Cadillac is a swell car for those who can afford to be extravagant—but, dollar for dollar, you get more real value in a Chevrolet. As against the loud praises sung for the chemical shares by so many professional advisers, the actual market record is nothing to shout about. Last year, the chemical group advanced closely in line with the Dow industrial average, which means considerably less than the "rank and file" of the market as reflected in our weekly index of 278 stocks; and ever since last January the group has been losing ground in relation to the industrial average. At current prices, the leading chemicals show the following declines from their 1943 highs: Allied Chemical, 22 points; du Pont, 20 points; Dow, 30 points; Union Carbide, 9⅝ points; Monsanto, 15 points. They still don't look too alluring on a dividend yield basis.

Rail Earnings

Despite a few exceptions, earning power of the railroads has turned down from its war peak, largely due to a less favorable EPT position. If the Senate adopts the House version of the pending tax bill, profits of quite a few rails would be further and substantially reduced by the 95 per cent EPT rate and the reduced base allowance for return on invested capital. However, for the rest of the European war at least, rail earnings will be glowing, indeed, as compared with the pre-war average. With earnings, present and in nearby prospect, far greater than in 1937; and with debt position radically improved, the rail average today stands at less than half its 1937 high and over 50 per cent below its 1937 mean level. The next major revival in rails will be founded on speculative confidence, rather more than on earnings. Perhaps it is around the corner, but certainly not now in sight.

American Home Products

The common stock of American Home Products is thus far displaying much better than average resistance to downward tendencies in the general market. Price of 65½ at this writing compares with year's high of 70 and low of 53⅓. Yield offered by the $2.65 dividend is only about 4 per cent., but dividend policy is conservative in relationship to earnings which in recent years, despite high war-time taxes, have held close to a consistent $5 a share. Priced at only a little over 13 times earnings, the price-earnings ratio is generally moderate for an equity which not only offers unusual sta-

bility of earning power but longer-term growth possibilities as well. The company is one of the largest in its field, with sales volume around $60,000,000 a year. Expansion has been accomplished mainly by acquiring smaller companies with well-established trademarks. Brands include Kolynos tooth powder, Bi-So-Dol; Edna Wallace Hopper and Louis Phillipe cosmetics lines, Clapp's baby foods, and Old English floor wax. Assuming some degree of tax reduction after the war, growth of sales and of pre-tax profits should eventually be translated into larger net.

Spiegel, Inc.

Spiegel common is now around 5¾, compared with year's high of 8¼ and low of 3. Although of quite speculative quality, this is one low-price stock that we consider a promising longer-term buy, though it is probably worth while to wait and see if it can be had still cheaper in the event of further general market unsettlement over the near term or during the forepart of the new year. Spiegel is unusual among merchandising stocks in that the company has been hard hit during the war period by restrictions on its time credit business and by lack of adequate inventories, whereas the general run of retail trade stocks now have very good earnings. On the basis both of post-war earnings possibilities and past market highs, the stock is much more greatly depressed than any other that we know of in the merchandising field. Relatively, it has more to gain from peace than the others.

Radio Corporation

"Radio" has recently come through with a 20 cent dividend, the same as has been paid every December in recent years. That is the complete distribution for the year—so the stock, now around 9, offers an income yield of 2.2 per cent. Earnings for the nine months ended Sept. 30 amounted to 36 cents a share, comparing with 33 cents for the corresponding period of 1942. Last year total net came to 42 cents a share and it evidently will not be bettered by more than a small margin this year. Top previous earnings in the war period were 50 cents in 1941. Best earnings in the pre-war years were 42 cents a share in 1937. Thus the stock is priced somewhere around 18 times indicated top earning power. It is possible that the romantic dreams about electronics will come true in the post-war world and that Radio will make a lot of money—but, as may be gathered from the unenthusiastic character of the preceding comment, this perennial speculative favorite of the "small fry" public is not any pet of this column. Far from it.

Minor Swings

The short swings in the market are always puzzling and seldom explainable. With the intermediate trend clearly downward and seasonal precedent calling for a reaction low around mid-December, on the average, why shouldn't the market go on down and get it over with? Instead, we recently had a rally of a couple of points in the industrial average. Trying to live up to their obligations, financial writers in the newspapers said the "news" was better, though wherein it had significantly changed is hard to say. The fact is that the price average never moves very long in any given direction without some "technical" interruption. Probably the reason is that after a few days of advance, or decline, quick-turn traders move to take profits. Through Nov. 30 the industrial average had declined for seven consecutive trading sessions. The back record over a period of years shows that on declines the short swings seldom carry through more than six or seven consecutive sessions without a rebound. Recognizing that habit, many traders will play for a rally after a six or seven-day decline. Over the past eleven years there is no example of a swing lasting more than ten consecutive sessions without reversal. There was one ten-session "play" in each of the years 1934, 1935 and 1938. There was one swing of nine sessions in each of four years out of the eleven: three swings lasting eight sessions in three different years; seven moves lasting seven sessions, with two of these in 1942, one each in five other years and none in the other five years. Moves lasting as long as six sessions without interruption have not been exactly plentiful — just eleven in the whole period,

Peace Stocks

(Continued from page 239)

they will closely approach the 1938/42 average and possibly pave the way for the return to the former $2 dividend, in 1942 reduced to $1.70, further enhancing the semi-investment character of the stock. Selling about 17 times prospective 1943 earnings, this outlook, however, appears fairly well discounted.

As I See It!

(Continued from page 221)

less they turn over a new leaf now before it is too late. Those of us at home who love and honor our country will not forget the disgraceful spectacle of these nefarious activities before the whole world, while the President is abroad working to bring hope and faith to a bitter, disillusioned world.

The times call for constructive, common action, the building of one stone upon another by the magic of spiritual good-will. It is decidedly not the time for hate, greed and lack of imagination, nor is there reason for fear. There is enough for all of us in this world.

The Market Turns to Realities

(Continued from page 223)

travelers. The consensus he reports is that Germany is still "strong" and is most unlikely to crack up for at least another year.

But Mr. Taylor concluded with additional information which any realistic psychologist would regard as casting considerable doubt on the validity of his main premise. He said there was a virtually unanimous opinion in Germany that this would be the last winter of the war—which indicates admission that German powers of resistance are limited. And he cited some remarkable mass illusions that exist in Germany, such as: that Roosevelt is so sick his sons are now in charge of our Army and Navy; that Stalin has twice been at the White House, incognito to plead for aid to tottering Russia which is currently making the last desperate gamble before it collapses; that British censorship is concealing a vast Arab war in the middle east which is occupying a million Tommies; etc.

In other words, the hopes of the German people are feeding eagerly on moonshine! That is fragile stuff. One wonders how long a war-weary people can subsist on it as the bombs rain down.

To sum up, it now looks improbable that the rest of December will provide a worthwhile buying opportunity for intermediate term or longer-range investment purchases for appreciation; and that any rally into early January would only delay completion of the market's transitional readjustment. Therefore, we continue to favor retention of substantial cash reserves.—Monday, Dec. 6.

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